

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **March 31, 2023**

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: **000-18730**

DarkPulse, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0472109

(I.R.S. Employer Identification No.)

815 Walker Street, Suite 1155, Houston, TX

(Address of principal executive offices)

77002

(Zip Code)

(800) 436-1436

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Not applicable	Not applicable	Not applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☐

Accelerated filer

☐

Non-accelerated filer

☒

Smaller reporting company

☒

Emerging growth company

☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock, \$0.0001 par value per share, outstanding as of on July 18, 2023, was 7,459,909,231.

The filing of this Quarterly Report on Form 10-Q for the period ended March 31, 2023 (the "Form 10-Q") is incomplete because the review by the Company's independent accountant of the unaudited interim financial information as of and for the three months ended March 31, 2023 set forth in the Form 10-Q required by Statement on Auditing Standards No. 100, Interim Financial Statements (the "SAS 100 Review") has not been completed. The Company intends to file an amended Form 10-Q upon completion of the SAS 100 Review by the Company's independent accountant.

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures	35
PART II—OTHER INFORMATION	36

Item 1. Legal Proceedings	36
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 6. Exhibits	38
SIGNATURES	39

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

DarkPulse, Inc. CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED

	March 31, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 545,970	\$ 2,060,332
Accounts receivable, net	482,847	2,952,293
Inventory	21,919	23,825
Contract assets	1,567,212	1,439,844
Due from related party	767,135	318,025
Prepaid expenses and other current assets	204,462	180,530
TOTAL CURRENT ASSETS	3,589,545	6,974,849
NON-CURRENT ASSETS:		
Property and equipment, net	1,910,858	1,933,871
Operating lease right-of-use assets	2,676,026	2,724,226
Patents, net	255,118	267,875
Notes receivable, related party	1,217,142	1,049,248
Investment in related party	1,500,000	1,500,000
Joint venture	79,793	46,724
Intangible assets, net	—	390,330
Goodwill	—	6,462,153
Other assets, net	806,018	689,869
TOTAL NON-CURRENT ASSETS	8,444,955	15,064,296
TOTAL ASSETS	\$ 12,034,500	\$ 22,039,145
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 11,508,784	\$ 10,736,373
Contract liabilities	2,672,244	2,215,212
Loss provision for contracts in progress	989,999	945,928
Convertible notes, net	378,263	378,263
Notes payable, current	2,000,000	2,000,000
Derivative liability	306,467	306,467
Loan payable, current	469,074	472,700
Loan payable, related party	361,747	361,747
Secured debenture, current	138,656	136,353
Operating lease liabilities - current	284,563	512,373
Other current liabilities	435,172	472,217
TOTAL CURRENT LIABILITIES	19,544,968	18,537,633
NON-CURRENT LIABILITIES:		
Secured debenture	970,594	954,474
Loan payable	306,098	328,508
Operating lease liabilities - non-current	2,725,741	2,547,524
TOTAL NON-CURRENT LIABILITIES	4,002,433	3,830,506
TOTAL LIABILITIES	23,547,401	22,368,139
Commitments and contingencies	—	—
STOCKHOLDERS' DEFICIT:		
Series A Super Voting preferred stock - par value \$0.01; 100 shares designated, 100 shares issued and outstanding at both March 31, 2023 and December 31, 2022	1	1
Convertible preferred stock - Series D, par value \$0.01, 100,000 shares designated, 88,235 shares issued and outstanding as of both March 31, 2023 and December 31, 2022	883	883
Common stock, par value \$0.0001, 20,000,000,000 shares authorized, 7,256,166,860 and 6,427,495,360 shares issued as of March 31, 2023 and December 31, 2022, respectively, 7,256,066,860 and 6,427,395,360 shares outstanding as of March 31, 2023 and December 31, 2022, respectively	725,608	642,740
Treasury stock at cost, 100,000 shares at March 31, 2023 and December 31, 2022	(1,000)	(1,000)

Additional paid-in capital	48,596,886	44,602,052
Non-controlling interests	1,339,870	2,119,566
Accumulated other comprehensive loss	(1,600,247)	(1,137,902)
Accumulated deficit	(60,574,902)	(46,555,334)
TOTAL STOCKHOLDERS' DEFICIT	(11,512,901)	(328,994)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 12,034,500	\$ 22,039,145

See the accompanying notes to the unaudited condensed consolidated financial statements

DarkPulse, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended March 31,	
	2023	2022
REVENUES	\$ 1,537,833	\$ 2,018,333
COST OF REVENUES	1,226,792	2,348,567
GROSS PROFIT (LOSS)	311,041	(330,234)
OPERATING EXPENSES:		
Selling, general and administrative	1,013,833	978,208
Salaries, wages and payroll taxes	1,547,208	1,972,067
Bad debt expense	2,364,977	—
Professional fees	2,950,698	1,538,103
Depreciation and amortization	231,234	228,614
Impairment expense	6,809,166	—
Gain on forgiveness of payables	—	(35,750)
TOTAL OPERATING EXPENSES	14,917,116	4,681,242
OPERATING LOSS	(14,606,074)	(5,011,476)
OTHER INCOME (EXPENSE):		
Interest expense	(117,415)	(517,754)
Loss on equity investment	(65,056)	—
Change in fair market of derivative liabilities	—	125,107
Foreign currency exchange rate variance	(10,719)	19,853
TOTAL OTHER (EXPENSE) INCOME	(193,189)	(372,794)
NET LOSS	(14,799,264)	(5,384,270)
Net loss attributable to non-controlling interests	779,696	113,681
Net loss attributable to DarkPulse, Inc.	\$ (14,019,568)	\$ (5,270,589)
Net loss per share - basic and diluted	\$ 0.00	\$ 0.00
Weighted average common shares outstanding - basic and diluted	6,958,719,650	5,290,107,585

See the accompanying notes to the unaudited condensed consolidated financial statements

DarkPulse, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
UNAUDITED

	Three Months Ended March 31,	
	2023	2022
NET LOSS	\$ (14,799,264)	\$ (5,384,270)
OTHER COMPREHENSIVE LOSS		
Foreign currency translation	(462,345)	(219,569)
COMPREHENSIVE LOSS	\$ (15,261,609)	\$ (5,603,839)

DarkPulse, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022
UNAUDITED

	Preferred stock				Common stock	
	Series A		Series D		Shares	Amount
	Shares	Amount	Shares	Amount		
Balance at December 31, 2021	—	\$ —	88,235	\$ 883	5,197,821,885	\$ 519,782
Conversion of convertible notes	—	—	—	—	—	—
Common stock issued for cash	—	—	—	—	200,121,061	20,012
Foreign currency adjustment	—	—	—	—	—	—
Net loss	—	—	—	—	—	—
Balance at March 31, 2022 (unaudited)	—	\$ —	88,235	\$ 883	5,397,942,951	\$ 539,794
Balance at December 31, 2022	100	\$ 1	88,235	\$ 883	6,427,395,360	\$ 642,740
Common stock issued for cash, net of fees	—	—	—	—	531,671,500	53,167
Issuance of common stock for legal settlement	—	—	—	—	297,000,000	29,700
Foreign currency adjustment	—	—	—	—	—	—
Net loss	—	—	—	—	—	—
Balance at March 31, 2023 (unaudited)	100	\$ 1	88,235	\$ 883	7,256,066,860	\$ 725,608

	Treasury stock		Additional paid-in capital	Non-controlling interests	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' deficit (equity)
	Shares	Amount					
Balance at December 31, 2021	100,000	\$ (1,000)	\$ 20,248,703	\$ 2,358,227	\$ (284,463)	\$ (11,276,490)	\$ 11,565,642
Conversion of convertible notes	—	—	—	—	—	—	—
Common stock issued for cash	—	—	7,679,988	—	—	—	7,700,000
Foreign currency adjustment	—	—	—	—	(219,569)	—	(219,569)
Net loss	—	—	—	—	—	(5,384,270)	(5,384,270)
Balance at March 31, 2022 (unaudited)	100,000	\$ (1,000)	\$ 27,928,691	\$ 2,358,227	\$ (504,032)	\$ (16,660,760)	\$ 13,661,803
Balance at December 31, 2022	100,000	\$ (1,000)	\$ 44,602,052	\$ 2,119,566	\$ (1,137,902)	\$ (46,555,334)	\$ (328,994)
Common stock issued for cash, net of fees	—	—	2,034,634	—	—	—	2,087,801
Issuance of common stock for legal settlement	—	—	1,960,200	—	—	—	1,989,900
Foreign currency adjustment	—	—	—	—	(462,345)	—	(462,345)
Net loss	—	—	—	(779,696)	—	(14,019,568)	(14,799,264)
Balance at March 31, 2023 (unaudited)	100,000	\$ (1,000)	\$ 48,596,886	\$ 1,339,870	\$ (1,600,247)	\$ (60,574,902)	\$ (11,512,901)

See the accompanying notes to the unaudited condensed consolidated financial statements

DarkPulse, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (14,799,264)	\$ (5,384,270)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	231,234	228,615
Loss on equity investment	65,056	—
Issuance of common stock for legal settlement	1,989,900	—
Impairment of goodwill and intangible assets	6,809,166	—
Bad debt expense	2,364,977	—
Operating lease expense	31,087	(440,171)
Gain on forgiveness of payables	—	(35,750)
Derivative liability	—	(125,107)
Changes in operating assets and liabilities:		
Accounts receivable	137,783	(2,523,210)
Inventory	1,906	—
Contract assets	(73,048)	(761,556)

Prepaid expenses and other assets	(140,081)	—
Accounts payable and accrued expenses	785,475	978,303
Contract liabilities	323,471	1,451,343
Loss provision for contracts in progress	15,968	—
Operating lease liabilities, net	(30,372)	679,675
Other liabilities	(37,043)	(356,372)
Net cash used in operating activities	(2,323,783)	(6,288,501)
Cash flows from investing activities:		
Purchases of property and equipment	(102,350)	—
Investment in joint venture	(98,125)	—
Issuance of note receivable, related party	(167,894)	—
Advances to related party	(449,110)	—
Deposits	—	(64,980)
Net cash used in investing activities	(817,479)	(64,980)
Cash flows from financing activities:		
Proceeds from sale of common stock, net of fees	2,087,801	7,700,000
Net repayments of loan payable	(26,039)	—
Net cash provided by financing activities	2,061,762	7,700,000
Net change in cash	(1,079,500)	1,346,519
Effect of exchange rate on cash	(434,862)	(219,569)
Cash at beginning of period	2,060,332	3,658,846
Cash at end of period	\$ 545,970	\$ 4,785,796
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ —	\$ —
Cash paid for interest	\$ 47,948	\$ —

See the accompanying notes to the unaudited condensed consolidated financial statements

DarkPulse, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business

DarkPulse, Inc. ("DPT" or "Company") is a technology-security company incorporated in 1989 as Klever Marketing, Inc. ("Klever"). Its wholly-owned subsidiary, DarkPulse Technologies Inc. ("DPTI"), originally started as a technology spinout from the University of New Brunswick, Fredericton, Canada. The Company's security and monitoring systems will initially be delivered in applications for border security, pipelines, the oil and gas industry and mine safety. Current uses of fiber optic distributed sensor technology have been limited to quasi-static, long-term structural health monitoring due to the time required to obtain the data and its poor precision. The Company's patented BOTDA dark-pulse sensor technology allows for the monitoring of highly dynamic environments due to its greater resolution and accuracy.

The Company's subsidiaries consist of Optilan HoldCo 3 Limited, a company headquartered in Coventry, United Kingdom ("Optilan") whose focus is in telecommunications, energy, rail, critical network infrastructure, pipeline integrity systems, renewables and security; Remote Intelligence, LLC, a company headquartered in Pennsylvania who provides unmanned aerial drone and unmanned ground crawler (UGC) services to a variety of clients from industrial mapping and ecosystem services, to search and rescue, to pipeline security; Wildlife Specialists, LLC, a company headquartered in Pennsylvania who provides clients with comprehensive wildlife and environmental assessment, planning, and monitoring services; TerraData Unmanned, PLLC, a company headquartered in Florida who custom manufactures NDAA compliant drones and unmanned ground crawlers to meet the needs of its customers; and TJM Electronics West, Inc., a company headquartered in Arizona who is a U.S. manufacturer and tester of advanced electronics, cables and sub-assemblies specializing in advanced package and complex CCA and hardware.

Liquidation/winding up of Optilan (UK) Limited

On May 3, 2023, Eversheds Sutherland (International) LLP, a creditor of Optilan (UK) Limited, filed a petition to wind up ("Winding up Petition") Optilan (UK) Limited, a wholly owned subsidiary of the Company's Subsidiary, Optilan HoldCo 3 Limited, and the matter was due to be heard in the Portsmouth Combined Court Centre on June 28, 2023.

On June 28, 2023, the High Court of Justice in the United Kingdom issued a winding-up order for the liquidation and winding up of the affairs of Optilan (UK) Limited ("Optilan Liquidation"). In conjunction with the order, the court appointed the Official Receiver's Office ("OR") to take the appointment as liquidator of Optilan (UK) Limited and take control of Optilan (UK) Limited's assets.

On July 3, 2023, Optilan (UK) Limited received a letter from The Insolvency Service, an executive agency sponsored by the Department for Business and Trade located in the U.K. Pursuant to the letter of The Insolvency Services, the Company was required to provide information relating to Optilan (UK) Limited to the Official Receiver's Office (a government body of Plymouth, the United Kingdom) and attend an interview with staff of the Official Receiver's Office to review the prospect of recovering the assets of Optilan (UK) Limited for the benefit of creditors. The interview is scheduled for July 18, 2023.

No order confirming a plan of reorganization, arrangement or liquidation has been entered as of this filing. The Company is an Unsecured creditor of Optilan (UK) Limited and is at risk of losing any repayment of obligations due from Optilan (UK) Limited because there are several intercompany relationships between the Company and Optilan (UK) Limited, the financial impact of any future claims and liabilities may not be known for several months. The Company has approximately \$19.4 million intercompany payables due from Optilan (UK), which will increase the Company liabilities for any obligations not repaid. The Company expects the remaining assets held by Optilan (UK) Limited to be fully impaired and reported as discontinued operations during the second quarter of 2023 as a result of the winding-up order for liquidation. At the time of this filing the Company is still evaluating the full effects of the winding-up order for liquidation and the material adverse effects it will have on the Company's continued operations and ability to meet future obligations.

The Company evaluated the events and circumstances of Optilan (UK) Limited liquidation and determined that conditions existed as of March 31, 2023, to indicate that the carrying value of the Company's goodwill and intangible assets may not be recoverable. Refer to Notes 2 and 7 for further detail on the impairment analysis. The Company expects the remaining assets held by Optilan (UK) Limited to be fully impaired during the second or third quarter of 2023 as a result of the winding-up order for liquidation.

Lastly, the Company performed an analysis of the trade receivables related to Optilan (UK) Limited and determined that an additional \$2,364,977 may not be collectible pursuant to the Optilan Liquidation. As of March 31, 2023, the Company recorded a bad debt provision for this amount.

Optilan (UK) Limited has the following assets as of March 31, 2023, including in the accompanying unaudited condensed consolidated balance sheet are as follows:

	March 31, 2023
Accounts receivable, net	\$ 1,913,260
Contract assets	\$ 1,224,047
Property and equipment, net	\$ 991,480
Operating lease right-of-use assets	\$ 1,528,544

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles of the United States of America ("U.S. GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission for Interim Financial Information. The condensed consolidated financial statements of the Company include the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. All adjustments (consisting of normal recurring items) necessary to present fairly the Company's financial position as of March 31, 2023, and the results of operations for three months and cash flows for the three months ended March 31, 2023 and 2022 have been included.

The Company evaluates its relationships with other entities to identify whether they are variable interest entities ("VIE") as defined by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, *Consolidation* ("ASC 810"), and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is consolidated.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated balance sheet as of March 31, 2023, the unaudited condensed consolidated statements of operations for the three and three months ended March 31, 2023 and 2022 and of cash flows for the three months ended March 31, 2023 and 2022 have been prepared by the Company, pursuant to the rules and regulations of the SEC for the interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements have been prepared on a basis consistent with the audited consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the consolidated results for the interim periods presented and of the consolidated financial condition as of the date of the interim consolidated balance sheet. The results of operations are not necessarily indicative of the results expected for the year ending December 31, 2023.

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 included in the Company's Annual Form 10-K filed with SEC on June 23, 2023.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions reflected in these financial statements include, but are not limited to, assumptions used to calculate derivative liabilities, revenue recognition and impairment of long-lived assets. The Company bases its estimates on historical experience, known trends and other market-specific or other relevant factors that it believes to be reasonable under the circumstances. On an ongoing basis, management evaluates its estimates when there are changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

Cash

The Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. The Company places its cash with high credit quality financial institutions. The Company's account at this institution is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. To reduce its risk associated with the failure of such a financial institution, the Company evaluates at least annually the rating of the financial institution in which it holds deposits. As of March 31, 2023, there was \$64,065 of cash held at the U.S. entities in excess of federally insured limits.

Accounts Receivable

Accounts receivable and contract assets include amounts billed to customers under the terms and provisions of the contracts. Most billings are determined based on contractual terms. As is common practice in the industry, the Company classifies all accounts receivable and contract assets, including retainage, as current assets. The contracting cycle for certain long-term contracts may extend beyond one year, and accordingly, collection of retainage on those contracts may extend beyond one year. Contract assets include amounts billed to customers under retention provisions in construction contracts. Such provisions are standard in the Company's industry and usually allow for a portion of progress billings on the contract price, typically 5-10%, to be withheld by the customer until after the Company has completed work on the project. Billings for such retention balances at each balance sheet date are finalized and collected after project completion. Generally, unbilled amounts will be billed and collected within one year. The Company determined that there are no material amounts due past one year and no material amounts billed but not expected to be collected within one year.

Each month, the Company reviews its receivables on a customer-by-customer basis and evaluates whether an allowance for doubtful accounts is necessary based on any known or perceived collection issues. Any balances that are eventually deemed uncollectible are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of both March 31, 2023 and December 31, 2022, the Company determined that the allowance for doubtful accounts was

\$5,685,960 and \$3,320,983, respectively.

Accounts receivable includes retainage amounts for the portion of the contract price earned by us for work performed but held for payment by the customer as a form of security until we reach certain construction milestones or complete the project. As of March 31, 2023 and December 31, 2022, retainage receivable was \$1,256,364 and \$824,777, respectively.

Foreign Currency Translation

The Company's reporting currency is U.S. Dollars. The accounts of one of the Company's subsidiaries is maintained using the appropriate local currency, British Pound ("GBP") as the functional currency, as well as the Turkish lira, Emiraes Dirham, Azerbaijani Manat and Indian Rupee. The accounts of one of the Company's subsidiaries are maintained using the appropriate local currency, Canadian Dollar ("CAD") as the functional currency. All assets and liabilities are translated into U.S. Dollars at balance sheet date, shareholders' equity is translated at historical rates and revenue and expense accounts are translated at the average exchange rate for the year or the reporting period. The translation adjustments are reported as a separate component of stockholders' equity, captioned as accumulated other comprehensive (loss) gain. Transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the statements of operations as foreign currency exchange variance.

The relevant translation rates are as follows: for the three months ended March 31, 2023 closing rate at 1.23682 S\$:GBP, average rate at 1.2033 US\$:GBP, and closing rate at 1.3751 US\$:CAD.

The relevant translation rates are as follows: for the three months ended March 31, 2022 closing rate at 1.31524 S\$:GBP, average rate at 1.342089 US\$:GBP, and closing rate at 1.2484 US\$:CAD.

Long-Lived Assets and Goodwill

The Company accounts for long-lived assets in accordance with the provisions of ASC 360-10-35, *Property, Plant and Equipment, Impairment or Disposal of Long-lived Assets*. This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Indefinite-lived intangible assets established in connection with business combinations consist of the tradename. The impairment test for identifiable indefinite-lived intangible assets consists of a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

The Company accounts for goodwill and intangible assets in accordance with ASC 350, *Intangibles – Goodwill and Other*. Goodwill represents the excess of the purchase price of an entity over the estimated fair value of the assets acquired and liabilities assumed. ASC 350 requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. This guidance simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The quantitative impairment test calculates any goodwill impairment as the difference between the carrying amount of a reporting unit and its fair value, but not to exceed the carrying amount of goodwill. It is our practice, at a minimum, to perform a qualitative or quantitative goodwill impairment test in the fourth quarter every year. The Company has one reporting unit it evaluates during its impairment test.

As a result of the Optilan Liquidation as described in Note 1, management determined that certain events and circumstances occurred that indicated that the carrying amount of the Company's reporting unit may not be recoverable as of March 31, 2023. The qualitative assessment was primarily due to the customer contracts held by Optilan (UK) Limited at March 31, 2023 and the associated revenue projections by the UK subsidiary that is subject to the potential winding up. As such, the Company compared the fair value of the reporting unit to the carrying amounts and recorded an impairment loss of \$6,809,166 pertaining to impairment and goodwill in the consolidated statements of operations. The Company recorded impairment of the indefinite-lived intangible asset of \$356,260, and impairment of goodwill of \$6,452,906. The Company has one reporting unit which was evaluated in the impairment test noted above. As a result of the impairment, the Company had a carrying value of \$0 pertaining to goodwill and intangible assets as of March 31, 2023.

Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation. Depreciation is based on the estimated service lives of the depreciable assets and is calculated using the straight-line method. Expenditures that increase the value or productive capacity of assets are capitalized. Fully depreciated assets are retained in the property and equipment, and accumulated depreciation accounts until they are removed from service. When property and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. Repairs and maintenance are expensed as incurred.

The estimated useful lives of property and equipment are generally as follows:

	Years
Office furniture and fixtures	4
Plant and equipment	4-8
Leasehold Improvements	10
Motor vehicles	3

Revenue Recognition

The Company's revenues are generated primarily from the sale of our services, which consist primarily of advanced technology solutions for integrated communications and security systems, as well as habitat management. The Company's sales of products are primarily generated from our TJM subsidiaries. Sales of products and services are separate from one another. At contract inception, we assess the goods and services promised in the contract with customers and identify a performance obligation for each. To determine the performance obligation, we consider all products and services promised in the contract regardless of whether they are explicitly stated or implied by customary business practices. The timing of satisfaction of the performance obligation is not subject to significant judgment. We measure revenue as the amount of consideration expected to be

received in exchange for transferring goods and services. We recognize service revenues as the performance obligations are met, which is generally as milestones are satisfied over time. We generally recognize product revenues at the time of shipment, provided that all other revenue recognition criteria have been met.

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. The five-step model is applied to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services transferred to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations and assess whether each promised good or service is distinct. We then recognize revenue in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The Company considers each individual sale of service contract to be its own performance obligation. Services in the contract are highly interdependent and interrelated, and the successful completion of each milestone is necessary for the overall success of the contract. Therefore, each milestone is not separately identifiable from other promises in the contract, and not distinct and ultimately not individual performance obligations.

The Company records revenue over time using the input measure as it is the most faithful depiction of an entity's performance because it directly measures the value of the goods and services transferred to the customer. The Company utilizes the Right to Invoice for these contracts, as the pricing structure is based on various milestones that are specified in the contract. These milestones include Construction Phase Plan, Start of the construction phase, installation phase, site surveys, fiber splicing, recoveries, and closeouts. There are specified payments associated with these milestones in the contract, and the value allocated is commensurate with work done. In the event that there are advances such as upfront retainers and not based on the value, those are recorded as contract liabilities.

Cost of Revenues

Cost of revenues consists primarily of materials and overhead costs incurred internally and amounts incurred to contract manufacturers to produce our products, airtime and other implementation costs incurred to install our products and train customer personnel, and customer service and third-party original equipment manufacturer costs to provide continuing support to our customers. Cost of revenues also includes direct labor attributable to revenue service arrangements.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company has not experienced any losses related to its cash and does not believe that it is subject to unusual credit risk beyond the normal credit risk associated with commercial banking relationships.

As of both March 31, 2023 and December 31, 2022, one customer accounted for 38% of gross accounts receivable.

Leases

The Company accounts for its leases under ASC 842, *Leases*. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases, and are recorded on the consolidated balance sheet as both a right of use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset result in straight-line rent expense over the lease term. For finance leases, interest on the lease liability and the amortization of the right of use asset results in front-loaded expense over the lease term. Variable lease expenses are recorded when incurred.

In calculating the right of use asset and lease liability, the Company has elected to combine lease and non-lease components. The Company excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election, and recognizes rent expense on a straight-line basis over the lease term.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities in accordance with the requirements of FASBASC 820, *Fair Value Measurements and Disclosures*. As defined in FASB ASC 820, the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilized the market data of similar entities in its industry or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs. FASBASC 820 established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement) as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date and includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The Company's derivative liability is a Level 3 liability measured at fair value on a recurring basis. See Note 10.

Non-controlling Interests

Non-controlling interests are classified as a separate component of equity in the Company's consolidated balance sheets and statements of changes in stockholders' equity. Net income (loss) and comprehensive income (loss) attributable to non-controlling interests are reflected separately from consolidated net income (loss) and comprehensive income (loss) in the consolidated statements of comprehensive income (loss) and statements of changes in stockholders' equity. Any change in ownership of a subsidiary while the controlling financial interest is retained is accounted for as an equity transaction between the controlling and non-controlling interests. In addition, when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary will be initially measured at fair value and the difference between the carrying value and fair value of the retained interest will be recorded as a gain or loss. The Company has non-controlling interests via its subsidiaries TerraData, Remote Intelligence and Wildlife Specialists.

During the three months ended March 31, 2023 and 2022, the Company recorded a loss of \$779,696 and \$113,681, respectively, attributable to non-controlling interests.

Comprehensive Loss

Comprehensive loss includes net loss well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. During the three months ended March 31, 2023 and 2022, the Company's only element of other comprehensive loss was foreign currency translation.

Loss Per Common Share

The Company accounts for earnings per share pursuant to ASC 260, *Earnings per Share*, which requires disclosure on the financial statements of "basic" and "diluted" earnings (loss) per share. Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to stock options and warrants for each year. In periods where the Company has a net loss, all dilutive securities are excluded. Potentially dilutive items outstanding as of March 31, 2023 and 2022 are as follows:

	March 31,	
	2023	2022
Convertible notes	65,827,695	87,775,272
Series D preferred stock	176,470	176,470
	<u>66,004,165</u>	<u>87,951,742</u>

Recent Accounting Pronouncements

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, which amends and clarifies several provisions of Topic 326. In May 2019, the FASB issued ASU 2019-05, *Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief*, which amends Topic 326 to allow the fair value option to be elected for certain financial instruments upon adoption. ASU 2019-10 extended the effective date of ASU 2016-13 until December 15, 2022. The Company adopted this new guidance, including the subsequent updates to Topic 326, on January 1, 2023 and the adoption did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. The Company adopted this new guidance on January 1, 2023 and the adoption did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, the Company will adopt those that are applicable.

NOTE 3 – LIQUIDITY AND GOING CONCERN

The Company generated net losses of \$14,799,264 and \$5,384,270 during the three months ended March 31, 2023 and 2022, respectively, and net cash used in operating activities of \$2,323,783 and \$6,288,501, respectively. As of March 31, 2023, the Company's current liabilities exceeded its current assets by \$15,955,423 and has an accumulated deficit of \$60,574,902. As of March 31, 2023, the Company had \$545,970 of cash. Lastly, the Optilan Liquidation raises serious concerns about the viability of the Optilan (UK) Limited entity and related operations of the Optilan subsidiaries.

The Company will require additional funding during the next twelve months to finance the growth of its current operations and achieve its strategic objectives. These factors, as well as the uncertain conditions that the Company faces relative to capital raising activities, create substantial doubt as to the Company's ability to continue as a going concern. The Company is seeking to raise additional capital principally through private placement offerings and is targeting strategic partners in an effort to finalize the development of its products and begin generating revenues. The ability of the Company to continue as a going concern is dependent upon the success of future capital offerings or alternative financing arrangements or expansion of its operations. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations for twelve months from the issuance date of these consolidated financial statements. However, management cannot make any assurances that such financing will be secured.

NOTE 4 – REVENUE

The following table is a summary of the Company's timing of revenue recognition for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
Services and products transferred at a point in time	\$ 688,428	\$ 638,832
Services and products transferred over time	<u>849,405</u>	<u>1,334,501</u>

Total revenue	\$ 1,537,833	\$ 2,018,333
---------------	--------------	--------------

The Company disaggregates revenue by source and geographic destination to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Revenue by source consisted of the following for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
Products	\$ 120,172	\$ 174,266
Services	1,417,661	1,844,067
Total revenue	\$ 1,537,833	\$ 2,018,333

Revenue by geographic destination consisted of the following for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
North America	\$ 219,266	\$ 161,372
United Kingdom	1,182,263	1,836,112
Rest of world	136,304	20,849
Total revenue	\$ 1,537,833	\$ 2,018,333

Contracts

Contract revenue is recognized over time using the cost-to-cost measure of progress for fixed price contracts. The cost-to-cost measure of progress best depicts the continuous transfer of control of goods or services to the customer. The contractual terms provide that the customer compensates the Company for services rendered.

Contract costs include all direct materials, labor and subcontracted costs, as well as indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and the costs of capital equipment. The cost estimation and review process for recognizing revenue over time under the cost-to-cost method is based on the professional knowledge and experience of the Company's project managers, engineers and financial professionals. Management reviews estimates of total contract transaction price and total project costs on an ongoing basis. Changes in job performance, job conditions and management's assessment of expected variable consideration are factors that influence estimates of the total contract transaction price, total costs to complete those contracts and profit recognition. Changes in these factors could result in revisions to revenue and costs of revenue in the period in which the revisions are determined on a prospective basis, which could materially affect the Company's consolidated results of operations for that period. Provisions for losses on uncompleted contracts are recorded in the period in which such losses are determined.

Performance Obligations

A performance obligation is a contractual promise to transfer a distinct good or service to the customer and is the unit of account under Accounting Standards Codification ("ASC") Topic 606. The transaction price of a contract is allocated to distinct performance obligations and recognized as revenue when or as the performance obligations are satisfied. The Company's contracts often require significant integrated services and, even when delivering multiple distinct services, are generally accounted for as a single performance obligation. Contract amendments and change orders are generally not distinct from the existing contract due to the significant integrated service provided in the context of the contract and are accounted for as a modification of the existing contract and performance obligation. The majority of the Company's performance obligations are completed within one year.

When more than one contract is entered into with a customer on or close to the same date, the Company evaluates whether those contracts should be combined and accounted for as a single contract as well as whether those contracts should be accounted for as more than one performance obligation. This evaluation requires significant judgment and is based on the facts and circumstances of the various contracts, which could change the amount of revenue and profit recognition in a given period depending upon the outcome of the evaluation.

Contract Assets and Liabilities

The Company bill its customers based on contractual terms, including, milestone billings based on the completion of certain phases of the work. Sometimes, billing occurs after revenue recognition, resulting in unbilled revenue, which is accounted for as a contract asset. Sometimes the Company receives advances payments from our customers before revenue is recognized, resulting in deferred revenue, which is accounted for as a contract liability.

Contract assets in the consolidated balance sheets represents costs and estimated earnings in excess of billings, which arise when revenue has been recorded but the amount has not been billed.

Contract assets consist of the following:

	March 31, 2023	December 31, 2022
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 1,567,212	\$ 1,439,844

Contract liabilities consist of the following:

	March 31, 2023	December 31, 2022
--	-------------------	----------------------

Billings in excess of costs and estimated earnings on uncompleted contracts	\$ 2,672,244	\$ 2,215,212
---	--------------	--------------

The following table is a summary of the Company's activity of contract liabilities related to contracts with customers:

	Total
Balance at December 31, 2022	\$ 2,215,212
Additions through advance billings to or payments from vendors	1,775,599
Revenue recognized from current period advance billings to or payments from vendors	(1,318,567)
Balance at March 31, 2023	\$ 2,672,244

Variable Consideration

Transaction pricing for the Company's contracts may include variable consideration, such as unapproved change orders, claims, incentives and liquidated damages. Management estimates variable consideration for a performance obligation utilizing estimation methods that best predict the amount of consideration to which the Company will be entitled. Variable consideration is included in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Management's estimates of variable consideration and determination of whether to include estimated amounts in transaction price are based on past practices with the customer, specific discussions, correspondence or preliminary negotiations with the customer, legal evaluations and all other relevant information that is reasonably available. The effect of a change in variable consideration on the transaction price of a performance obligation is typically recognized as an adjustment to revenue on a cumulative catch-up basis. To the extent unapproved change orders, claims and liquidated damages reflected in transaction price are not resolved in the Company's favor, or to the extent incentives reflected in transaction price are not earned, there could be reductions in, or reversals of, previously recognized revenue.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Accounts receivable	\$ 6,168,807	\$ 6,273,276
Less: Allowance for doubtful accounts	(5,685,960)	(3,320,983)
Accounts receivable, net	\$ 482,847	\$ 2,952,293

The Company performed an analysis of the trade receivables related to Optilan (UK) Limited and determined that an additional \$2,364,977 may not be collectible pursuant to the Optilan Liquidation. As of March 31, 2023, the Company recorded a bad debt provision for this amount.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Property and equipment	\$ 4,044,771	\$ 3,942,421
Leasehold improvements	46,934	46,934
Property and equipment at cost	4,091,705	3,989,355
Less - accumulated depreciation	(2,180,847)	(2,055,484)
Property and equipment, net	\$ 1,910,858	\$ 1,933,871

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following is a summary of activity of goodwill for the three months ended March 31, 2023:

	Goodwill
Balances at December 31, 2022	\$ 6,462,153
Impairment of goodwill pertaining to Optilan	(6,452,906)
Foreign exchange translation	(9,247)
Balances at March 31, 2023	\$ –

Intangible Assets, Net

On January 1, 2023, the Company revised the estimated useful life of the trade name intangible asset from 25 years to 10 years. Amortization expense for the three months ended March 31, 2023 and 2022 was \$33,255 and \$0, respectively.

During the three months ended March 31, 2023, the Company recorded impairment of the trade name of \$356,260. At March 31, 2023 and December 31, 2022, the carrying value of the intangible assets was \$0 and \$390,330, respectively.

Patents - Intrusion Detection Intellectual Property

The following is a summary of the DPTI patents:

	March 31, 2023	December 31, 2022
Patents	\$ 904,269	\$ 904,269
Less: accumulated amortization	(649,151)	(636,394)
Patents, net	\$ 255,118	\$ 267,875

For the three months ended March 31, 2023 and 2022, the Company amortized \$12,757 and \$12,757, respectively.

NOTE 8 – JOINT VENTURE

On September 9, 2022, the Company entered into a Joint Venture Agreement with Neural Signals Inc. ("NSI"), for the purpose of developing, marketing and selling products and services based on the patents issued to NSI. The parties established the Joint Venture, Neural Logistics Inc., under a separate entity to conduct business. The Company has 50% ownership in NSI. The Company determined that the investment was accounted for as an equity investment under ASC 323-10-30-2.

During the three months ended March 31, 2023, the Company contributed \$98,125 to the joint venture and recorded a loss on the equity investment of \$65,056.

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Accounts payable	\$ 8,192,413	\$ 8,677,648
Accrued liabilities	3,316,370	2,058,725
Total accounts payable and accrued expenses	<u>\$ 11,508,784</u>	<u>\$ 10,736,373</u>

NOTE 10 – DEBT

Convertible Notes

As of both March 31, 2023 and December 31, 2022, there was \$378,263 of convertible debt outstanding and a derivative liability of \$306,467.

As of March 31, 2023, all outstanding convertible debt is default.

Notes Payable

On July 14, 2021, the Company entered a Securities Purchase Agreement (the "GS SPA") with GS Capital Partners, LLC pursuant to which the Company issued to the Lender a 6% Redeemable Note in the principal amount of \$2,000,000 (the "GS Note"). The purchase price of the GS Note is \$1,980,000. The GS Note matures on July 14, 2022 upon which time all accrued and unpaid interest will be due and payable. Interest accrues on the GS Note at 6% per annum until the GS Note becomes due and payable. The GS Note is subject to various "Events of Default," which are disclosed in the GS Note. Upon the occurrence of an "Event of Default," the interest rate on the GS Note will be 18%. The GS Note is not convertible into shares of the Company's Common Stock and is not dilutive to existing or future shareholders and the Company used a portion of the proceeds of the GS Note to retire convertible debt. As of March 31, 2023 and December 31, 2022, \$2,000,000 remains outstanding. As of March 31, 2023, the GS note is in default.

Loans Payable

The Company's RI and WS subsidiaries have various loans including Small Business Association ("SBA") Economic Injury Disaster Loan ("EIDL") loans, lines of credit and other advances. The loans bear interest with varying rates up to 9.25% per annum. The following is a summary of the loans payable at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
RI - line of credit	\$ 99,971	\$ 99,971
RI - Short-term loans	41,279	43,899
WS - line of credit	200,000	200,000
WS - Short-term loans	127,824	128,830
Loan payable, current	<u>\$ 469,074</u>	<u>\$ 472,700</u>
RI - SBA EIDL	\$ 102,597	\$ 102,597
RI - long-term loans	84,748	86,041
WS - SBA EIDL	26,307	26,307
WS - long-term loans	92,446	113,564
Loan payable, non-current	<u>\$ 306,098</u>	<u>\$ 328,508</u>

NOTE 11 – SECURED DEBENTURE

DPTI issued a convertible Debenture to the University (see Note 1) in exchange for the Patents assigned to the Company, in the amount of Canadian \$1,500,000, or US\$1,491,923 on December 16, 2010, the date of the Debenture. On April 24, 2017 DPTI issued a replacement secured term Debenture in the same CAD 1,500,000 amount as the original Debenture. The interest rate is the Bank of Canada Prime overnight rate plus 1% per annum. The Debenture had an initial required payment of CAD 42,000 (US\$33,385) due on April 24, 2018 for reimbursement to the University of its research and development costs, and this has been paid. Interest-only maintenance payments are due annually starting after April 24, 2018. Payment of the principal begins on the earlier of (a) three years following two consecutive quarters of positive earnings before interest, taxes, depreciation and amortization, (b) six years from April 24, 2017, or (c) in the event DPTI fails to raise defined capital amounts or secure defined contract amounts by April 24 in the years 2018, 2019, and 2020. The Company has raised funds in excess of the amount required for 2020, 2019 and 2018. Beginning in 2023, The principal repayment amounts will be due quarterly over a six year period in the amount of Canadian Dollars 62,500. Based on the exchange rate between the Canadian Dollar and the U.S. Dollar on December 31, 2018, the quarterly principal repayment amounts will be US\$48,447. The Debenture is secured by the Patents assigned by the University to DPTI by an Assignment Agreement on December 16, 2010. DPTI has pledged the Patents, and granted a lien on them pursuant to an Escrow Agreement dated April 24, 2017, between DPTI and the University.

The Debenture was initially recorded at the \$1,491,923 equivalent U.S. Dollar amount of Canadian 1,500,000 as of December 16, 2010, the date of the original Debenture. The liability

is being adjusted quarterly based on the current exchange value of the Canadian dollar to the U.S. dollar at the end of each quarter. The adjustment is recorded as unrealized gain or loss in the change of the value of the two currencies during the quarter. The Debenture also includes a provision requiring DPTI to pay the University a 2% royalty on sales of any and all products or services which incorporate the Patents for a period of five years from April 24, 2018. To date, no royalties have been paid.

For the three months ended March 31, 2023, and 2022, the Company recorded interest expense of \$28,275 and \$12,617, respectively.

As of March 31, 2023 and December 31, 2022, the debenture liability totaled \$1,109,250 and \$1,090,827, respectively.

NOTE 12 – LEASES

The following was included in our balance sheet as of March 31, 2023 and December 31, 2022:

Operating leases	March 31, 2023	December 31, 2022
<i>Assets</i>		
ROU operating lease assets	\$ 2,676,026	\$ 2,724,226
<i>Liabilities</i>		
Current portion of operating lease	284,563	512,373
Operating lease, net of current portion	2,725,741	2,547,524
Total operating lease liabilities	<u>\$ 3,010,304</u>	<u>\$ 3,059,897</u>

The weighted average remaining lease term and weighted average discount rate at March 31, 2023 and December 31, 2022 were as follows:

Operating leases	March 31, 2023	December 31, 2022
Weighted average remaining lease term (years)	8.00	8.25
Weighted average discount rate	6.00%	6.00%

Operating Leases

On January 12, 2021, the Company's newly acquired subsidiary entered into an operating lease agreement to rent office space in Mumbai, India. This three-year agreement commenced January 12, 2021 with an annual rent of approximately \$50,000.

On May 27, 2021, the Company's newly acquired subsidiary entered into an operating lease agreement to rent office space in Warwick, United Kingdom. This ten-year agreement commenced May 27, 2021 with an annual rent of approximately \$85,000 with the first six months rent free.

On August 31, 2021, the Company's newly acquired subsidiary entered into an operating lease agreement to rent office space in Tempe, Arizona. This five-year agreement commenced August 31, 2021 with an annual rent of approximately \$192,000.

On October 20, 2021, the Company's newly acquired subsidiary entered into an operating lease agreement to rent office space in Warwick, United Kingdom. This ten-year agreement commenced October 20, 2021 with an annual rent of approximately \$200,000 with the first six months rent free.

On March 9, 2022, the Company entered into an operating lease agreement to rent office space in Houston, Texas. This ten-year agreement commenced March 9, 2022 with an annual rent of approximately \$81,000 with the first twelve months rent free.

NOTE 13 - STOCKHOLDERS' EQUITY (DEFICIT)

Preferred Stock

In accordance with the Company's bylaws, the Company has authorized a total of 2,000,000 shares of preferred stock, par value \$0.01 per share, for all classes. As of March 31, 2023 and December 31, 2022, there were 88,335 and 88,235 total preferred shares issued and outstanding for all classes, respectively.

Common Stock

In accordance with the Company's bylaws, the Company has authorized a total of 20,000,000,000 shares of common stock, par value \$0.0001 per share. As of March 31, 2023 and December 31, 2022, there were 7,256,166,860 and 6,427,495,360 common shares issued, respectively. As of March 31, 2023 and December 31, 2022, there were 7,256,066,860 and 6,427,395,360 common shares outstanding, respectively.

2023 Transactions

On May 27, 2022 we entered an Equity Financing Agreement (the "**2022 EFA**") and Registration Rights Agreement (the "**RRA**") with GHS, pursuant to which GHS agreed to purchase up to \$70,000,000 in shares of our Common Stock, from time to time over the course of 24 months after effectiveness of a registration statement on Form S-1 (the "**Registration Statement**") of the underlying shares of Common Stock.

The RRA provides that we shall (i) use our best efforts to file with the SEC a Registration Statement within 45 days of the date of the GHS Registration Rights Agreement; and (ii) have the Registration Statement declared effective by the SEC within 30 days after the date the GHS Registration Statement is filed with the SEC, but in no event more than 90 days after the GHS Registration Statement is filed.

Below is a table of all puts made by the Company under the 2022 EFA during 2023:

Date of Put	Number of Common Shares Issued	Total Proceeds, Net of Discounts	Effective Price per Share	Net Proceeds
1/12/2023	64,130,435	\$ 400,000	\$0.006237	\$ 370,975
1/17/2023*	11,441,647	100,000	\$0.008740	100,000
1/24/2023	77,733,861	400,000	\$0.005146	370,975
2/3/2023	61,173,706	300,000	\$0.004904	277,975

2/17/2023	75,447,571	300,000	\$0.003976	277,975
3/1/2023	83,113,044	324,000	\$0.003898	300,295
3/16/2023	93,165,852	254,232	\$0.002729	235,410
3/30/2023	65,465,384	166,903	\$0.002549	154,195
	<u>531,671,500</u>	<u>\$ 2,245,135</u>		<u>\$ 2,087,801</u>

* Issued shares pursuant to an individual stock purchase agreement with an unrelated investor (not under 2022 EFA)

In January 2023, the Company entered into a settlement of a dispute between certain stockholders in which the Company decided, during the period ended March 31, 2023, to issue shares to settle the dispute. In January 2023, the Company issued 297,000,000 shares of common stock to the individuals. The fair value of \$1,989,900, or \$0.0067 per share, was included in professional fees in the consolidated statements of operations in the three months ended March 31, 2023.

NOTE 14 - COMMITMENTS & CONTINGENCIES

Potential Royalty Payments

The Company, in consideration of the terms of the debenture to the University of New Brunswick, shall pay to the University a two percent royalty on sales of any and all products or services, which incorporate the Company's patents for a period of five years from April 24, 2018.

Bonded Contracts

As of March 31, 2023 and December 31, 2022, the Company's Optilan subsidiary had five bonded contracts for a total guaranteed value of approximately \$967,000 and \$984,000, respectively.

Legal Matters

DarkPulse, Inc. v. Twitter, Inc.

As disclosed in greater detail in the Company's Form 10-Q, filed October 24, 2022, the Company is actively investigating potential claims against the @MIKEWOOD and @BullMeechum3 Twitter accounts. There are no material updates to this matter.

Carebourn Capital, L.P. v. DarkPulse, Inc.

As disclosed in greater detail in the Company's Form 10-Q, filed October 24, 2022, the Company remains in active litigation with Carebourn Capital, L.P. ("Carebourn") in Minnesota state court. The following discloses the material updates for this matter.

On April 21, 2023, the Minnesota state court granted the Company's motion for partial summary judgment on its affirmative defenses. Specifically, the Court found that Carebourn is an unregistered dealer, acting in violation of Section 15(a) of the Securities Exchange Act of 1934 and, thus, the contracts between the Company and Carebourn are now void pursuant to Section 29(b) of the Exchange Act.

The Company is actively litigating its counterclaims asserted under the Minnesota Uniform Securities Act.

More Capital, LLC v. DarkPulse, Inc. et al

As disclosed in greater detail in the Company's Form 10-Q, filed October 24, 2022, the Company remains in active litigation with More Capital, LLC ("More") in Minnesota state court. There are no material updates to this litigation.

The Company remains committed to actively litigating its affirmative defenses and claims for relief under the Securities Exchange Act of 1934 and Minnesota Uniform Securities Act.

Carebourn Capital et al v. Standard Registrar and Transfer et al

On May 20, 2022, Carebourn Capital, L.P. ("Carebourn") and More Capital, LLC ("More," and together with Carebourn, the "Noteholder Plaintiffs") commenced an action against (i) Standard Registrar and Transfer Co., Inc. ("Standard"), (ii) Amy Merrill ("Merrill") (Standard and Merrill, together, the "TA Defendants"), (iii) DarkPulse, Inc., (iv) Dennis O'Leary ("O'Leary"), (v) Thomas Seifert ("Seifert"), (vi) Carl Eckel ("Eckel"), (vii) Anthony Brown ("Brown"), and (viii) Faisal Farooqui ("Farooqui") (DarkPulse, O'Leary, Seifert, Eckel, Brown, and Farooqui, collectively, the "DPLS Defendants") in the United States District Court for the District of Utah.

The Noteholder Plaintiffs' complaint alleges the DPLS Defendants violated the Racketeer Influenced and Corrupt Organizations (RICO) Act, are liable for attorneys' fees pursuant to the Company's breach of securities contracts between the Company and, separately, Carebourn and More, and engaged in civil conspiracy, fraudulent concealment, tortious interference with economic relations and conversion against the Noteholder Plaintiffs.

Thereafter, the TA Defendants and DPLS Defendants separately moved to dismiss the Noteholder Plaintiffs' complaint. On February 10, 2023, the Court denied both motions without prejudice and stayed the action pending the conclusion of enforcement action commenced by the U.S. Securities and Exchange Commission against Carebourn and its principal, Chip Rice, in the U.S. District Court for the District of Minnesota.

The Company contends that the Noteholder Plaintiffs' lawsuit is duplicative of the first-filed lawsuits commenced by the Noteholder Plaintiffs' in Minnesota state court. The Company intends to vigorously defend itself against the Noteholder Plaintiffs' lawsuit.

Goodman et al. v. DarkPulse, Inc.

As disclosed in greater detail in the Company's Form 10-Q, filed October 24, 2022, on September 10, 2021, Stephen Goodman, Mark Banash, and David Singer ("Former Officers") commenced suit against the Company in Arizona Superior Court, Maricopa County.

As of the date hereof, the Company and Former Officers have entered into a mutual settlement. Thus, the Former Officers' lawsuit against the Company has been dismissed with prejudice.

DarkPulse, Inc. v. FirstFire Global Opportunities Fund, LLC, and Eli Fireman

As disclosed in greater detail in the Company's Form 10-Q, filed October 24, 2022, the Company remains in active litigation with FirstFire Global Opportunities Fund, LLC ("FirstFire"), and Eli Fireman ("Fireman") (FirstFire and Fireman together, the "FirstFire Parties"). The following discloses the material updates for this matter.

On January 17, 2023, the Court granted the FirstFire Parties' motion to dismiss the Company's complaint. Also on January 17, 2023, the Company appealed the trial court's decision to the United States Court of Appeals for the Second Circuit. Briefing is currently taking place on the Company's appeal.

The Company remains committed to actively litigating its claims for relief under the Securities Exchange Act of 1934 and Racketeer Influenced and Corrupt Organizations (RICO) Act.

DarkPulse, Inc. v. EMA Financial, LLC et al

As disclosed in greater detail in the Company's Form 10-Q, filed October 24, 2022, the Company remains in active litigation with EMA Financial, LLC ("EMA"), EMA Group, Inc. ("EMA Group"), and Felicia Preston ("Preston") (EMA, EMA Group, and Preston together, the "EMA Parties"). The following discloses the material updates for this matter.

On March 1, 2023, the Court granted the EMA Parties' motion to dismiss the Company's claims asserted under the Securities Exchange Act of 1934, but denied dismissal of the Company's claim asserted under the Racketeer Influenced and Corrupt Organizations (RICO) Act.

On or about May 15, 2023, the Company and the EMA Parties reached an understanding of settlement, which was subsequently memorialized. The action was subsequently dismissed on or about June 14, 2023.

DarkPulse, Inc. v. Brunson Chandler & Jones, PLLC et al

On July 8, 2022, the Company commenced litigation against Brunson Chandler & Jones, PLLC ("Brunson Firm"), and Lance B. Brunson ("Brunson," and together with the Brunson Firm, the "Brunson Parties") through the filing of a complaint in the United States District Court for the District of Utah. The Company is alleging that the Brunson Parties have committed professional negligence and breach of contract.

On March 2, 2023, the Brunson Parties filed an answer, affirmative defenses, and counterclaims to the Company's complaint, wherein the Brunson Firm alleged claims for (i) breach of contract against the Company, (ii) breach of contract against the Company's subsidiary, DarkPulse Technologies, Inc., and (iii) quantum meruit.

On June 5, 2023, the Company filed its answer and affirmative defenses to the Brunson Firm's counterclaims. The Company remains committed to litigating its claims and affirmative defenses against the Brunson Parties.

DarkPulse, Inc., et al v. Crown Bridge Partners, LLC, et al

On September 23, 2022, the Company commenced an action along with two other plaintiffs ("Crown Bridge Plaintiffs") against Crown Bridge Partners, LLC, Soheil Ahdoot, and Sepas Ahdoot ("Crown Bridge Defendants") in the United States District Court for the Southern District of New York alleging violations of the Racketeer Influenced and Corrupt Organizations (RICO) Act.

On January 13, 2023, the Crown Bridge Defendants filed a motion to dismiss. As of May 16, 2023, the Crown Bridge Defendants' motion to dismiss was fully submitted to the court. As of the date hereof, no decision has been made on the motion.

The Company remains committed to actively litigating its RICO claims against the Crown Bridge Defendants.

Benner et al v. DarkPulse, Inc. et al

On March 29, 2023, J. Merlin Benner, Phillip J. Benner, Benjamin P. Benner, Jonas M. Benner, and Angelica M. Benner (collectively, the "Benner Parties") commenced an action in the United States District Court for the Southern District of Texas against the Company and its Chief Executive Officer, Dennis O'Leary, individually, alleging (i) the Company is in breach of contracts between the Company and the Benner Parties as it concerns Remote Intelligence, LLC and Wildlife Specialists, LLC, (ii) violation of Texas Uniform Fraudulent Transfer Act by the Company, and (iii) defamation by Mr. O'Leary.

On June 30, 2023, the Company and Mr. O'Leary filed their Answer to the Benner Parties' Complaint. The Company intends to vigorously defend itself against the Benner Parties' lawsuit.

GS Capital Partners, LLC v. DarkPulse, Inc.

On June 2, 2023, GS Capital Partners, LLC ("GS Capital") commenced an action in the Supreme Court for New York County against the Company through the filing of motion for summary judgment in lieu of a complaint. The motion claims that the Company is in breach of a convertible promissory note, dated July 14, 2021, and accompanying securities purchase agreement, dated the same.

The motion claims that GS Capital is entitled to an award of \$2,407,671, plus prejudgment interest and attorney's fees, costs and disbursements.

The Company is currently looking to retain legal counsel to represent it in this matter, and intends to vigorously defend itself against GS Capital.

The Company intends to vigorously defend against the lawsuit.

From time to time, we may become involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently involved in any pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on our business, financial condition and operating results.

NOTE 15 – RELATED PARTY TRANSACTIONS

The Company follows subtopic 850-10 of the FASB Accounting Standards Codification for the identification of related parties and disclosure of related party transactions. Pursuant to Section 850-10-20 the related parties include a) affiliates of the Company; b) Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity; c) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; d) principal owners of the Company; e) management of the Company; f) other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and g) Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. The financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures shall include: a) the nature of the relationship(s) involved; b) a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements; c) the dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period; and d) amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

During the three months ended March 31, 2023 and 2022, certain executives of the Company received \$120,000 and \$0, respectively, in Directors fees from Optilan for being members of Optilan's Board of Directors.

Remote Intelligence and Wildlife Specialists Loan Payables

RI has a loan payable with the former majority shareholder, who is a shareholder in the Company after the acquisition of 60% of RI's membership interests. The loan is unsecured, non-interest bearing and due on demand. As of both March 31, 2023 and December 31, 2022, the outstanding balance was \$226,247.

WS has a loan payable with the former majority shareholder, who is a shareholder in the Company after the acquisition of 60% of WS's membership interests. The loan is unsecured, non-interest bearing and due on demand. As of both March 31, 2023 and December 31, 2022, the outstanding balance was \$135,500.

SPAC Transaction

On October 12, 2022, the Company entered into and closed the Purchase Agreement (the "Agreement") pursuant to which the Company purchased 2,623,120 shares of Class B Common Stock (the "Class B Common Stock") and 4,298,496 Private Placement Warrants, each of which is exercisable to purchase one share of Class A Common Stock (the "Warrants," together with the Class B Common Stock, the "Securities") of Gladstone Acquisition Corp., a Delaware corporation (NASDAQ: GLEE) (the "SPAC"), from Gladstone Sponsor, LLC ("Original Sponsor") for \$1,500,000 (the "Purchase Price"). The SPAC subsequently changed its name to Global Systems Dynamics, Inc. ("GSD").

As of March 31, 2023 and December 31, 2022, the Company's \$1,500,000 investment in GSD was accounted for as cost.

In addition to the payment of the Purchase Price, the Company also assumed the following obligations: (i) responsibility for all of SPAC's public company reporting obligations, (ii) the right to provide an extension payment and extend the deadline of the SPAC to complete an initial business combination from 15 months from August 9, 2021 to 18 months for an additional \$1,150,000, and (iii) all other obligations and liabilities of the Original Sponsor related to the SPAC. The principal balance of this note shall be payable by GSD on the earlier to occur of: (i) the date on which GSD consummates its initial business combination (the "Business Combination") and (ii) the date that the winding up of GSD is effective. The note does not bear interest. On February 7, 2023 and March 9, 2023, GSD issued a non-convertible promissory note in the aggregate principal amount of \$167,894 (\$83,947 per month) to the Company in connection with the extension of the termination date for the GSD's initial business combination. As of March 31, 2023 and December 31, 2022, the outstanding note receivable was \$1,217,142 and \$1,049,248, respectively.

As of March 31, 2023 and December 31, 2022, the Company has \$767,135 and \$318,025, respectively, owed from GSD and included as due from related party on the consolidated balance sheet. These advances were made to pay for certain expenses on behalf of the SPAC, as well as \$30,000 in accrued management fees. The advances are unsecured, non-interest bearing and due on demand.

NOTE 16 – SUBSEQUENT EVENTS

From April 1, 2023 through July 18, 2023, the Company has issued 203,842,371 shares of common stock for net proceeds of \$537,849.

From April 1, 2023 through July 18, 2023, GSD issued non-convertible promissory notes aggregating in the principal amount of \$335,788 (\$83,947 per month) to the Company in connection with the extension of the termination date for the GSD's initial business combination. The termination was extended through August 9, 2023.

Pursuant to the promissory note, the Company has agreed to loan to GSD \$251,841 to deposit into GSD's trust account. The promissory note bears no interest and is repayable in full upon the earlier of (i) the date on which GSD consummates its Initial Business Combination, and (ii) the date that the winding up of GSD is effective.

From April 1, 2023 through July 18, 2023, the Company has provided non-interest-bearing advances to GSD aggregating \$101,460.

On May 16, 2023, the Company entered into a 50/50 Partner Agreement with Jupiter Metal Pvt. Ltd. ("**Jupiter**," together with the Company, the "**Partners**") pursuant to which the Company and Jupiter formed a partnership pursuant to the provisions of The Indian Partnership Act 1932 (the "**Act**"). The name of the partnership is "OM DarkPulse Infratech" (the "**Partnership**") and its purpose is to jointly work on infrastructure projects in India. The Partnership will commence on the effective date and will continue for 12 months, unless earlier dissolved and terminated pursuant to the Act or any other provisions in the agreement. The Partnership will also be automatically extended for additional 12-month terms unless terminated upon written notice by either of the Partners upon 90 days prior written notice prior to termination of the Partnership pursuant to the terms in the agreement. No contributions have been made to date.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain certain forward-looking statements. Historical results may not indicate future performance. Our forward-looking statements reflect our current views about future events; are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. Factors that may cause differences between actual results and those contemplated by forward-looking statements include, but are not limited to, those discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2022. We undertake no obligation to publicly update or revise any forward-looking statements, including any changes that might result from any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements

Critical Accounting Policies

The following discussions are based upon our consolidated financial statements and accompanying notes, which have been prepared in accordance with accounting principles generally accepted in the United States.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions reflected in these financial statements include, but are not limited to, assumptions used to calculate derivative liabilities, revenue recognition and impairment of long-lived assets. The Company bases its estimates on historical experience, known trends and other market-specific or other relevant factors that it believes to be reasonable under the circumstances. On an ongoing basis, management evaluates its estimates when there are changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

Long-Lived Assets and Goodwill

The Company accounts for long-lived assets in accordance with the provisions of ASC 360-10-35, *Property, Plant and Equipment, Impairment or Disposal of Long-lived Assets*. This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Indefinite-lived intangible assets established in connection with business combinations consist of the tradename. The impairment test for identifiable indefinite-lived intangible assets consists of a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

The Company accounts for goodwill and intangible assets in accordance with ASC 350, *Intangibles – Goodwill and Other*. Goodwill represents the excess of the purchase price of an entity over the estimated fair value of the assets acquired and liabilities assumed. ASC 350 requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. This guidance simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The quantitative impairment test calculates any goodwill impairment as the difference between the carrying amount of a reporting unit and its fair value, but not to exceed the carrying amount of goodwill. It is our practice, at a minimum, to perform a qualitative or quantitative goodwill impairment test in the fourth quarter every year. The Company has one reporting unit it evaluates during its impairment test.

In determining the fair value of the reporting unit, management estimated the price that would be received to sell the reporting unit as a whole in an orderly transaction between market participants at the measurement date. This includes reviewing market comparables such as revenue multipliers and assigning certain assets and liabilities to the reporting units, such as the respective working capital deficits of each entity and debt obligations that would need to be assumed by a market participant buyer in an orderly transaction. The Company calculated the carrying amounts of the reporting unit by utilizing the entities' assets and liabilities at December 31, 2022, including the carrying value of the identifiable intangible assets and goodwill assigned to the respective reporting unit.

The Company recorded impairment expense of intangibles and goodwill of \$12,222,598 upon its annual impairment test during the year ended December 31, 2022. In the three months ended March 31, 2023, the Company evaluated changes in circumstances as a result of the Optilan Liquidation which indicated that the carrying amount of Optilan's long-lived assets may not be recoverable. As such, the Company recorded impairment expense of intangibles of \$356,260 and goodwill of \$6,452,906.

Revenue Recognition

The Company's revenues are generated primarily from the sale of our services, which consist primarily of advanced technology solutions for integrated communications and security systems, as well as habitat management. The Company's sales of products are primarily generated from our TJM subsidiaries. Sales of products and services are separate from one another. At contract inception, we assess the goods and services promised in the contract with customers and identify a performance obligation for each. To determine the performance obligation, we consider all products and services promised in the contract regardless of whether they are explicitly stated or implied by customary business practices. The timing of satisfaction of the performance obligation is not subject to significant judgment. We measure revenue as the amount of consideration expected to be received in exchange for transferring goods and services. We recognize service revenues as the performance obligations are met, which is generally as milestones are satisfied over time. We generally recognize product revenues at the time of shipment, provided that all other revenue recognition criteria have been met.

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. The five-step model is applied to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services transferred to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations and assess whether each promised good or service is distinct. We then recognize revenue in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The Company considers each individual sale of service contract to be its own performance obligation. Services in the contract are highly interdependent and interrelated, and the successful completion of each milestone is necessary for the overall success of the contract. Therefore, each milestone is not separately identifiable from other promises in the contract, and not distinct and ultimately not individual performance obligations.

The Company records revenue over time using the output measure as it is the most faithful depiction of an entity's performance because it directly measures the value of the goods and services transferred to the customer. The Company utilizes the Right to Invoice for these contracts, as the pricing structure is based on various milestones that are specified in the contract. These milestones include Construction Phase Plan, Start of the construction phase, installation phase, site surveys, fiber splicing, recoveries, and closeouts. There are specified payments associated with these milestones in the contract, and the value allocated is commensurate with work done. In the event that there are advances such as upfront retainers and not based on the value, those are recorded as contract liabilities.

In accordance with ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedient*, which is to (1) clarify the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. There was no impact as a result of adopting this ASU on the financial statements and related disclosures. Based on the terms and conditions of the product arrangements, the Company believes that its products and services can be accounted for separately as its products and services have value to the Company's customers on a stand-alone basis. When a transaction involves more than one product or service, revenue is allocated to each deliverable based on its relative fair value; otherwise, revenue is recognized as products are delivered or as services are provided over the term of the customer contract.

Business Overview

DarkPulse, Inc., a Delaware corporation (the "**Company**" or "**DarkPulse**"), is a technology and research and development company focused on the manufacture, sale, installation, and monitoring of laser sensing systems based on its patented BOTDA dark-pulse sensor technology. The Company develops, markets, and distributes a full suite of engineering, monitoring, installation and security management solutions for critical infrastructure/key resources to both industries and governments. Coupled with our patented BOTDA technology, DarkPulse provides its customers a comprehensive data stream of critical metrics for assessing the health and security of their infrastructure. Our systems provide rapid, precise analysis and responsive activities predetermined by the end-user customer. The Company's activities since inception have consisted of developing various solutions, obtaining patents and trademarks related to its technology, raising capital, acquisition of companies deemed to expand global operations and/or capabilities, creating key partnerships to expand our suite of products and services. Our activities have evolved to a sales-focused mission since the successful completion of our BOTDA system in December 2020.

Headquartered in Houston, DarkPulse is a globally-based technology company with presence through its subsidiaries in the United Kingdom, India, Dubai, Abu Dhabi, Turkey, Azerbaijan, United States and Canada. In addition to the Company's BOTDA systems, through a series of strategic acquisitions the Company offers the manufacture, sale, installation, and monitoring of laser sensing systems, oil and gas pipeline leak detection, physical security services, telecommunications and satellite communications services, artificial intelligence-based camera systems, railway monitoring services, drone and rover systems, and Big Data as a Service ("**BDaaS**"). The Company is focused on expanding services through acquisitions and partnerships to address global infrastructure and critical environmental resource challenges.

DarkPulse offers a full suite of engineering and environmental solutions that provide safety and security infrastructure projects. The sensing and monitoring capabilities offered by DarkPulse and our subsidiary companies operate in the air, land, sea. Our patented technology provides rapid, precise analysis to protect and safeguard oil and gas pipelines above or below ground, physical security countermeasures, mining operations, and other critical infrastructure/key resources subject to vulnerability or risk. Our patented Brillouin scattering distributed fiber sensing system is best in class. The Company is able to monitor areas in around critical infrastructure buried or above ground including pipelines 100km or more in length and/ or localized pipes as small as eight CM DIA, detecting internal anomalies before catastrophic failure. We are developing an intelligent rock bolt to prevent casualties and fatalities in mining operations and include a real time sensor system that can detect the location and movement of personnel and equipment throughout a mining operation. We monitor airflow, air quality, temperature, seismic events, etc. Our sensors cover extended areas, protecting an area from intrusion by detecting events at any location along the sensing cable. Working safely every day is our first core value and employees at DarkPulse and our subsidiary companies are recognized experts in their fields, providing comprehensive services for all our clients' needs.

Our Subsidiaries

Our subsidiaries consist of, Optilan, a company headquartered in Coventry, United Kingdom whose focus is in telecommunications, energy, rail, critical network infrastructure, pipeline integrity systems, renewables and security; Remote Intelligence, Limited Liability Company, a company headquartered in Pennsylvania who provides unmanned aerial drone and unmanned ground crawler (UGC) services to a variety of clients from industrial mapping and ecosystem services, to search and rescue, to pipeline security; Wildlife Specialists, Limited Liability Company, a company headquartered in Pennsylvania who provides clients with comprehensive wildlife and environmental assessment, planning, and monitoring services; TerraData Unmanned, PLLC, a company headquartered in Florida who custom manufactures NDAA compliant drones and unmanned ground crawlers to meet the needs of its customers; and TJM Electronics West, Inc., a company headquartered in Arizona who is a U.S. manufacturer and tester of advanced electronics, cables and sub-assemblies specializing in advanced package and complex CCA and hardware.

Recent Events

Liquidation/winding up of Optilan (UK) Limited

On May 3, 2023, Eversheds Sutherland (International) LLP, a creditor of Optilan (UK) Limited, filed a petition to wind up ("Winding up Petition") Optilan (UK) Limited, a wholly owned subsidiary of the Company's Subsidiary, Optilan HoldCo 3 Limited, and the matter was due to be heard in the Portsmouth Combined Court Centre on June 28, 2023.

On June 28, 2023, the High Court of Justice in the United Kingdom issued a winding-up order for the liquidation and winding up of the affairs of Optilan (UK) Limited ("Optilan Liquidation"). In conjunction with the order, the court appointed the Official Receiver's Office ("OR") to take the appointment as liquidator of Optilan (UK) Limited and take control of Optilan (UK) Limited's assets.

On July 3, 2023, Optilan (UK) Limited received a letter from The Insolvency Service, an executive agency sponsored by the Department for Business and Trade located in the U.K. Pursuant to the letter of The Insolvency Services, the Company was required to provide information relating to Optilan (UK) Limited to the Official Receiver's Office (a government body of Plymouth, the United Kingdom) and attend an interview with staff of the Official Receiver's Office to review the prospect of recovering the assets of Optilan (UK) Limited for the benefit of creditors. The interview is scheduled for July 18, 2023.

No order confirming a plan of reorganization, arrangement or liquidation has been entered as of this filing. The Company is an Unsecured creditor of Optilan (UK) Limited and is at risk of losing any repayment of obligations due from Optilan (UK) Limited because there are several intercompany relationships between the Company and Optilan (UK) Limited, the financial impact of any future claims and liabilities may not be known for several months. The Company has approximately \$19.4 million intercompany payables due from Optilan (UK), which will increase the Company liabilities for any obligations not repaid. The Company expects the remaining assets held by Optilan (UK) Limited to be fully impaired and reported as discontinued operations during the second quarter of 2023 as a result of the winding-up order for liquidation. At the time of this filing the Company is still evaluating the full effects of the winding-up order for liquidation and the material adverse effects it will have on the Company's continued operations and ability to meet future obligations.

The Company evaluated the events and circumstances of Optilan (UK) Limited liquidation and determined that conditions existed as of March 31, 2023 to indicate that the carrying value of the Company's goodwill and intangible assets may not be recoverable. Refer to Notes 2 and 7 for further detail on the impairment analysis. The Company expects the remaining assets held by Optilan (UK) Limited to be fully impaired during the second or third quarter of 2023 as a result of the winding-up order for liquidation.

Lastly, the Company performed an analysis of the trade receivables related to Optilan (UK) Limited and determined that an additional \$2,364,977 may not be collectible pursuant to the Optilan Liquidation. As of March 31, 2023, the Company recorded a bad debt provision for this amount.

Optilan (UK) Limited has the following assets as of March 31, 2023, including in the accompanying unaudited condensed consolidated balance sheet are as follows:

	March 31, 2023
Accounts receivable, net	\$ 1,913,260
Contract assets	\$ 1,224,047
Property and equipment, net	\$ 991,480
Operating lease right-of-use assets	\$ 1,528,544

Financings

On May 27, 2022 we entered an Equity Financing Agreement (the "**2022 EFA**") and Registration Rights Agreement (the "**RRA**") with GHS, pursuant to which GHS agreed to purchase up to \$70,000,000 in shares of our Common Stock, from time to time over the course of 24 months after effectiveness of a registration statement on Form S-1 of the underlying shares of Common Stock.

The RRA provides that we shall (i) use our best efforts to file with the SEC a registration statement within 45 days of the date of the GHS Registration Rights Agreement; and (ii) have the registration statement declared effective by the SEC within 30 days after the date the GHS registration statement is filed with the SEC, but in no event more than 90 days after the registration statement is filed.

Below is a table of all puts made by the Company under the 2022 EFA during 2023:

Date of Put	Number of Common Shares Issued	Total Proceeds, Net of Discounts	Effective Price per Share	Net Proceeds
1/12/2023	64,130,435	\$ 400,000	\$0.006237	\$ 370,975
1/24/2023	77,733,861	400,000	\$0.005146	370,975
2/3/2023	61,173,706	300,000	\$0.004904	277,975
2/17/2023	75,447,571	300,000	\$0.003976	277,975
3/1/2023	83,113,044	324,000	\$0.003898	300,295
3/16/2023	93,165,852	254,232	\$0.002729	235,410
3/30/2023	65,465,384	166,903	\$0.002549	154,195
	<u>520,229,853</u>	<u>\$ 2,145,135</u>		<u>\$ 1,987,801</u>

On January 17, 2023, we entered into a Stock Purchase Agreement with an investor for the purchase of 11,441,647 shares of Common Stock in exchange for \$100,000.

Partnerships

We have entered into a consulting agreement with the Bachner Group to assist in the successful transformation from an R&D focused company to a sales-focused company and assist us with federal contract opportunities.

Going Concern Uncertainty

As shown in the accompanying financial statements, we generated net losses of \$14,799,264 and \$5,384,270 during the three months ended March 31, 2023 and 2022, respectively, and net cash used in operating activities of \$2,323,783 and \$6,288,501, respectively. As of March 31, 2023, our current liabilities exceeded its current assets by \$ 15,955,423 and has an accumulated deficit of \$60,574,902. As of March 31, 2023, we had \$545,970 of cash. Lastly, the Optilan Liquidation raises serious concerns about the viability of the Optilan (UK) Limited entity and related operations of the Optilan subsidiaries.

We will require additional funding to finance the growth of our operations and achieve our strategic objectives. These factors, as relative to capital raising activities, create substantial doubt as to our ability to continue as a going concern. We are seeking to raise additional capital and are targeting strategic partners in an effort to accelerate the sales and marketing of our products and begin generating revenues. Our ability to continue as a going concern is dependent upon the success of future capital offerings or alternative financing arrangements, expansion of our operations and generating sales. The accompanying financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations; however, management cannot make any assurances that such financing will be secured.

Foreign Currency Risk

In general, the Company is a net receiver of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect the Company's net sales and gross margins as expressed in U.S. dollars. There is a risk that the Company will have to adjust local currency product pricing due to competitive pressures when there has been significant volatility in foreign currency exchange rates.

Results of Operations

The Company's revenues are generated primarily from the sale of our services, which consist primarily of advanced technology solutions for integrated communications and security systems, as well as habitat management. The Company's sales of products are primarily generated from our TJM subsidiaries.

The Company's future revenues will be derived from the following, among other things.

- promote adoption of our patented technology through agency and distribution agreements;
- cross-selling existing customer with products from other subsidiaries;
- provide a wide array of diverse services, including enhanced or additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;
- pursue acquisitions of additional assets, in each case if available at attractive prices; and
- market our products and services to new customers.

While the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services, the Company also maintains multiple contracts for future material revenues, including part of framework contracts that will be recognized during future reporting periods.

For the three months ended March 31, 2023, total revenues were \$1,537,833 compared to \$2,018,333 for the three months ended March 31, 2022, a decrease of \$480,500. The decrease was primarily due to lower revenues achieved by Wildlife and Optilan due to decreased operations given capital and resources restraints. The breakdown of revenues by entity for the three months ended March 31, 2023 and 2022 is as follows:

	Three Months Ended March 31,	
	2023	2022
Optilan	\$ 1,318,567	\$ 1,467,203
Wildlife	40,155	306,548
TJM	120,172	174,266
Remote Intelligence	—	24,816
TerraData	58,939	45,500
	<u>\$ 1,537,833</u>	<u>\$ 2,018,333</u>

Cost of Revenues and Gross Margin

For the three months ended March 31, 2023, cost of revenues was \$1,226,792 compared to \$2,348,567 for the three months ended March 31, 2022, a decrease of \$1,121,775.

Gross profit (loss) for the three months ended March 31, 2023 was \$311,041 with a gross margin of 20.2% compared to \$(330,234) for the three months ended March 31, 2022 with a (16.4)% gross margin. During 2022, it was realized that certain fixed price quoted contracts, with design and execution issues, prolonged the completion of the projects. This resulted in significant excess costs related to labor, subcontractor, and material costs. The Company has adequately reserved for these costs through completion of the projects in the third quarter of 2023. Unfortunately, there was very little foresight into the magnitude of the loss. The Company believes that this is not a recurring issue with Optilan and/or its business model. The Company has undertaken internal procedures during its bid process to assure that such practices will not occur in the future. In 2023, gross profit increased due to more normalized costs related to revenue as Optilan performed new, profitable projects. Approximately \$240,000 of the gross profit was due to the fiber business which generates higher gross profits than other projects.

Operating Expenses

Selling, general and administrative expenses for three months ended March 31, 2023 increased by \$35,625 to \$1,013,833 from \$978,208 for the three months ended March 31, 2022. The increase primarily consisted of increase in advertising costs, insurance and information technology expenses.

Salaries, wages and payroll taxes for three months ended March 31, 2023 decreased to \$1,547,208 from \$1,972,067 for the three months ended March 31, 2022. The decrease primarily consisted of reduced headcount at each subsidiary.

The Company performed an analysis of the trade receivables related to Optilan (UK) Limited and determined that an additional \$2,364,977 may not be collectible pursuant to the Optilan Liquidation. As of March 31, 2023, the Company recorded a bad debt provision for this amount.

Professional fees for the three months ended March 31, 2023 increased to \$2,950,698 from \$1,538,103 for the three months ended March 31, 2022. This increase primarily consisted of \$1,989,900 in non-cash expenses due to the issuance of common stock per the settlement of an litigation matter, partially offset by lower legal fees incurred in 2023.

During the three months ended March 31, 2022, the Company recorded a gain on forgiveness of payables of \$35,750.

As a result of the Optilan Liquidation as described in Note 1, management determined that certain events and circumstances occurred that indicated that the carrying amount of the Company's reporting unit may not be recoverable as of March 31, 2023. The qualitative assessment was primarily due to the customer contracts held by Optilan (UK) Limited at March 31, 2023 and the associated revenue projections by the UK subsidiary that is subject to the potential winding up. As such, the Company compared the fair value of the reporting unit to the carrying amounts and recorded an impairment loss of \$6,809,166 pertaining to impairment and goodwill in the consolidated statements of operations. The Company recorded impairment of the indefinite-lived intangible asset of \$356,260, and impairment of goodwill of \$6,452,906.

Depreciation and amortization for three months ended March 31, 2023 and 2022 was \$231,234 and \$228,614, respectively.

Other Income (Expense)

For the three months ended March 31, 2023, we had other expenses of (\$193,189) compared to other expenses of (\$372,794) for the three months ended March 31, 2022. The decrease in other expenses was primarily due to lower interest expense in 2023.

Net Loss

As a result of the above, we reported a net loss of \$14,799,264 and \$5,384,270 for the three months ended March 31, 2023 and 2022, respectively.

Liquidity and Capital Resources

We require working capital to fund the continued development and commercialization of our proprietary fiber optic sensing devices, and for operating expenses. During the three months ended March 31, 2023, we had \$2,087,801 in cash proceeds from our equity financings compared to \$7,700,000 in 2022.

As of March 31, 2023, we had cash of \$545,970 compared to \$2,060,332 as of December 31, 2022. We currently do not have sufficient cash to fund our operations for the next 12 months and we will require working capital to complete development, testing and marketing of our products and to pay for ongoing operating expenses. We anticipate adding consultants for technology development and the corresponding operations of the Company, but this will not occur prior to obtaining additional capital. Management is currently in the process of looking for additional investors. Currently, loans from banks or other lending sources for lines of credit or similar short-term borrowings are not available to us. We have been able to raise working capital to fund operations through the issuances of convertible notes or obtained through the issuance of our restricted common stock. As of March 31, 2023, our current liabilities exceeded our current assets by \$15,955,423. Lastly, the Optilan Liquidation raises serious concerns about the viability of the Optilan (UK) Limited entity and related operations of the Optilan subsidiaries.

Several of our significant operating subsidiaries have borrowed funds from DarkPulse. The terms of the instruments governing the indebtedness of these borrowers or borrowing groups may restrict our ability to access their accumulated cash. In addition, our ability to access the liquidity of these and other subsidiaries may be limited by tax, legal and other considerations.

Our executive officers and our Board of Directors review our sources and potential uses of cash in connection with our annual budgeting process and whenever circumstances warrant. Generally speaking, our principal funding source is cash from financing activities, and our principal cash requirements include loans to our operating subsidiaries, operating expenses, and capital expenditures,

Cash Flows From Operating Activities

During the three months ended March 31, 2023, net cash used by operating activities was \$2,323,783 resulting from our net loss of \$14,799,264 partially offset by non-cash charges of \$11,491,421 primarily driven by impairment charges, bad debt expense and the issuance of common stock for a legal settlement. In 2023, we had cash provided by our operating assets and liabilities of \$984,059 primarily driven by increases in accounts payable and contract liabilities.

During the three months ended March 31, 2022, net cash used by operating activities was \$6,288,501, resulting from our net loss of \$5,384,270, partially offset by non-cash gains of \$372,413. In 2022, we had cash used in our operating assets and liabilities of \$531,817 primarily due to increases in accounts receivable and contract assets partially offset by increases in accounts payable and contract liabilities.

Cash Flows From Investing Activities

During the three months ended March 31, 2023, we had net cash used in investing activities of \$817,749, including \$167,894 in notes and \$449,110 in advances to GSD, as well as our joint venture investment of \$98,125 and purchase of property and equipment of \$102,350.

During the three months ended March 31, 2022, we had net cash used in investing activities of \$64,980 due to deposits.

Cash Flows From Financing Activities

During the three months ended March 31, 2023, net cash provided by financing activities was \$2,061,762 which was primarily comprised of proceeds from the sale of common stock of \$2,087,801, less net repayments of loans of \$26,039.

During the three months ended March 31, 2022, net cash provided by financing activities was \$7,700,000, comprised of proceeds from the sale of common stock from offering of \$7,700,000.

Factors That May Affect Future Results

Management's Discussion and Analysis contains information based on management's beliefs and forward-looking statements that involve a number of risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from the forward-looking statements as a result of various factors, including but not limited to, our ability to obtain the equity funding or borrowings necessary to market and launch our products, our ability to successfully serially produce and market our products; our success establishing and maintaining collaborative licensing and supplier arrangements; the acceptance of our products by customers; our continued ability to pay operating costs; our ability to meet demand for our products; the amount and nature of competition from our competitors; the effects of technological changes on products and product demand; and our ability to successfully adapt to market forces and technological demands of our customers.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our consolidated financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity capital expenditures or capital resources.

Recent Accounting Pronouncements

In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, *Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging*, and Topic 825, *Financial Instruments*, which amends and clarifies several provisions of Topic 326. In May 2019, the FASB issued ASU 2019-05, *Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief*, which amends Topic 326 to allow the fair value option to be elected for certain financial instruments upon adoption. ASU 2019-10 extended the effective date of ASU 2016-13 until December 15, 2022. The Company adopted this new guidance, including the subsequent updates to Topic 326, on January 1, 2023 and the adoption did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, the Company has elected not to provide the disclosure required by this item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and, as such, is accumulated and communicated to our Chief Executive Officer, Dennis O'Leary, who serves as our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Mr. O'Leary, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of March 31, 2023. Based on his evaluation, Mr. O'Leary concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2023.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting, as defined in Rules 13a-15(f) of the Exchange Act, during our quarter ended March 31, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Benner et al v. DarkPulse, Inc. et al

On March 29, 2023, J. Merlin Benner, Phillip J. Benner, Benjamin P. Benner, Jonas M. Benner, and Angelica M. Benner (collectively, the "**Benner Parties**") commenced an action in the United States District Court for the Southern District of Texas against the Company and its Chief Executive Officer, Dennis O'Leary, individually, alleging (i) the Company is in breach of contracts between the Company and the Benner Parties as it concerns Remote Intelligence, LLC and Wildlife Specialists, LLC, (ii) violation of Texas Uniform Fraudulent Transfer Act by the Company, and (iii) defamation by Mr. O'Leary.

On June 30, 2023, the Company and Mr. O'Leary filed their Answer to the Benner Parties' Complaint. The Company intends to vigorously defend itself against the Benner Parties' lawsuit.

Optilan (UK) Limited – Compulsory Liquidation

On June 28, 2023, an order was made by the English courts to place Optilan (UK) Limited ("**Optilan UK**") into compulsory liquidation. Compulsory liquidation is a formal, legal insolvency procedure that results in a company being forcibly liquidated by the courts. The process was initiated by the presentation of a winding petition served on Optilan UK by an unpaid creditor. Optilan UK was unable to settle the creditor payment ahead of the winding up hearing in court and consequently, the court made an order for the company to be wound up/liquidated. At the point the order was made, Optilan UK ceased operating, and the directors' powers ceased. All employment contracts terminated as did other contractual relationships with clients and customers whose contracts allowed for termination following the company's entry into liquidation. We understand the other companies in the Optilan group remain solvent and continue to operate.

At the same time, the court appointed the Official Receiver's Office (the "**OR**") to take the appointment as liquidator of Optilan UK. An official receiver is a licensed insolvency practitioner who has been appointed by the courts to ensure the company is wound down as per the compulsory order. The OR has taken control of the Optilan UK's assets.

The primary objective of the OR, who is also an officer of the court, is to repay as much as possible to the creditors. The OR will undertake an initial interview with the directors to identify urgent matters, and thereafter undertake a full interview with the directors to further their investigation work. The OR will also conduct a separate interview as regards the directors' conduct and report this back to the Insolvency Service.

Creditors can also nominate their own choice of liquidator to replace the OR. The OR will consider nominations from creditors and ordinarily the largest unsecured creditor will be able to appoint their own choice of liquidator. The liquidator acts in the interests of all creditors. It is the intention for DarkPulse (as largest unsecured creditor of Optilan UK) to try and replace the liquidator for one of its choice.

The liquidator's fees are generally paid out of the company's assets. The liquidator must make payment to creditors in a particular order as set out below:

- Secured creditors with a fixed charge;
- Liquidator fees;
- Preferential creditors (employees);
- Secondary preferential creditors (HMRC);
- Secured creditors with a floating charge; and
- Unsecured creditors (which includes DarkPulse debts). Unsecured creditors rank equally.

The main result of compulsory liquidation is the complete dissolution of the business of Optilan UK. However, assets of Optilan UK can be purchased at fair market value. DarkPulse has expressed a desire to acquire certain assets of Optilan UK from the liquidator.

If DarkPulse does not purchase the assets of Optilan UK, the liquidator will go out to competitors and may try to find a buyer. If they cannot find one, any contracts will be disclaimed (cannot be performed), and tangible assets will be disposed of at auction to get the best price.

Most liquidations take around 6 to 12 months to conclude. This period usually affords the liquidator sufficient time to dispose of the company's assets, agree creditor claims and make a distribution to creditors (if there are any funds available), conclude the company's tax affairs and fill the necessary closure paperwork.

During the process, the subsidiaries can continue to operate, and DarkPulse can support those operations as well as attempt to sign new contracts with the current customers of Optilan UK.

From time to time, we may become involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently involved in any pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on our business, financial condition and operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Below is a table of all puts made by the Company under the 2022 EFA during 2023:

Date of Put	Number of Common Shares Issued	Total Proceeds, Net of Discounts	Effective Price per Share	Net Proceeds
1/12/2023	64,130,435	\$ 400,000	\$0.006237	\$ 370,975
1/17/2023*	11,441,647	100,000	\$0.008740	100,000
1/24/2023	77,733,861	400,000	\$0.005146	370,975
2/3/2023	61,173,706	300,000	\$0.004904	277,975
2/17/2023	75,447,571	300,000	\$0.003976	277,975
3/1/2023	83,113,044	324,000	\$0.003898	300,295
3/16/2023	93,165,852	254,232	\$0.002729	235,410
3/30/2023	65,465,384	166,903	\$0.002549	154,195
	<u>531,671,500</u>	<u>\$ 2,245,135</u>		<u>\$ 2,087,801</u>

* Issued shares pursuant to an individual stock purchase agreement (not under 2022 EFA)

Effective January 17, 2023, the Company entered into a Securities Purchase Agreement with George Thomas Rettas pursuant to which the Company sold 11,441,647 shares of Common Stock \$0.0087 per share for gross proceeds of \$100,000.

The shares above were issued in reliance upon the exemption from securities registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506(b) of Regulation D under the Securities Act, based in part on the representations of the investor. There were \$150,159 in sales commissions paid to J.H. Darbie & Co., Inc. ("J.H. Darbie") pursuant to the 2022 EFA.

In January 2023, the Company entered into a settlement of a dispute between certain stockholders in which the Company decided, during the period ended March 31, 2023, to issue shares to settle the dispute. In January 2023, the Company issued 297,000,000 shares of common stock to the individuals. The fair value of \$1,989,900, or \$0.0067 per share, was included in professional fees in the consolidated statements of operations in the three months ended March 31, 2023.

The shares above were issued in reliance upon the exemption from securities registration afforded by Section 4(a)(2) of the Securities Act.

Item 6. Exhibits

SEC Ref. No.	Title of Document
10.1*	Engagement Letter dated February 24, 2023 with Keystone Global Holdings and its subsidiaries Keystone Global Strategies, LLC and KSG Advisors, LLC
31.1*	Rule 13a-14(a) Certification by Principal Executive and Financial Officer

32.1**	Section 1350 Certification of Principal Executive and Financial Officer
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted in Inline XBRL, and included in exhibit 101).

*Filed with this Report.
**Furnished with this Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DarkPulse, Inc.

Date: July 18, 2023

By /s/ Dennis O'Leary
Dennis O'Leary, Chairman, Chief Executive Officer, President, Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)



Corporate Office
390 N Broadway
Jericho, NY, 11753
Phone 516-882-4100
Fax 516-882-4058
www.keystoneglobalholdings.com

February 24, 2023

DarkPulse, Inc.
815 Walker Street, Suite 1155
Houston, TX 77002 Attn: Dennis O'Leary

Dear Mr. Dennis O'Leary,

This letter ("**Engagement Letter**") is to confirm the non-exclusive engagement by DarkPulse, Inc., its and designated subsidiaries, or affiliates, (the "**Company**") of Keystone Global Holdings and its subsidiaries Keystone Global Strategies, LLC ("**Keystone**") and KSGAdvisors, LLC, ("**KSG**") together, "**Keystone Global**" to provide certain services, specifically: (i) Keystone to render strategic advisory and business development consulting including certain project development, whether related to one project or a series of projects (the "**Consulting Services**") and (ii) KSG in connection with certain investment banking services related to the sale of interests in the Company through certain financial instruments issued by the Company or any or all of the Company's subsidiaries whether effected in one transaction or a series of transactions (the "**Transaction**").

The purpose of this Engagement Letter is to:

- A. Confirm the engagement of (i) Keystone to provide Consulting Services to Company and (ii) KSG by Company as its sell-side financial advisor on the Transaction (the "**Transaction Advisory Services**," and together with the Consulting Services, the "**Engagement**");
- B. Outline (i) Keystone's scope of work and the fees for the Consulting Services and (ii) KSG's scope of work and fees for the Transaction; and
- C. Set out the terms and conditions of the contractual arrangement between Keystone Global and the Company.

1. **Scope of Work**

A. **Keystone Consulting Services:** The Consulting Services to be provided by Keystone to Company are as follows:

- i. **Due Diligence.** Review existing material related to Company provided to Keystone including the intellectual property, technology, product applications, operations, and/or market strategy of Company;
- ii. **Introductions and Facilitation of Engagement.** Introduce Company to clients and/or strategic partners to work with Company (each a "**Keystone Project Target**", collectively "**Keystone Project Targets**") that may be interested in acquiring or implementing the Company's technology, products and/or services pursuant to a definitive agreement ("**Definitive Agreement**").
- iii. **Research and Identification.** Assist in the identification and development of project(s) resulting in the sale of Company's products and/or the implementation and/or integration of Company's technology, products and/or services into the project(s) managed, or developed, by Keystone Project Targets (each a "**Contract**," collectively "**Contracts**"), including but not limited to, infrastructure, aerospace, mining, safety, oil & gas, pipeline, utility, water or security projects.

1

B. **KSG Transaction Advisory Services:** The Transaction Advisory Services to be provided by KSG to Company in connection with the Transaction are as follows:

- i. **Due Diligence.** Review existing material provided by Company to better understand Company's business, operations, properties, financial statements, financial condition and the objectives of management;
- ii. **Information Development.** Assist Company in preparing certain materials for distribution to potential buyers, describing the Company and its business, operations, properties, financial condition and management, it being specifically agreed that (a) such materials shall be based entirely upon information supplied by Company, which information Company hereby warrants shall be complete and accurate in all material respects, and not misleading, and (b) Company shall be solely responsible for the accuracy and completeness of such materials, it being understood that any materials to be distributed to potential buyers will be reviewed and approved by Company in advance of distribution;
- iii. **Potential Targets.** Introduce Company to investors, capital providers, strategic partners and/or other parties who might be interested in the Transaction ("**Keystone Investor Target(s)**"); and
- iv. **Negotiations.** Assist Company in any discussions and negotiations with Keystone Investor Targets interested in consummating a Transaction.

2. **Fees.** Keystone and KSG shall be paid for the Consulting Services and Transaction Advisory Services respectively as follows:

A. **Consulting Services Fee.** If during the term of the Engagement, Keystone's Consulting Services result: (i) in a Definitive Agreement, or (ii) in a fully executed Contract between Company and a Keystone Project Target, (each a "**Contract Award**"), then Keystone shall receive a fee ("**Contract Award Fee**") equal to a percentage of the Contract Value of the Definitive Agreement or the Contract Award, regardless of the term of the Definitive Agreement or Contract as follows:

7% of the first \$5 million

5% on everything above \$5 million

For example, if the aggregate Contract Award is \$5 million, the aggregate Contract Award Fee would be \$350,000. If the aggregate Contract Award is \$6 million, the

aggregate Contract Award Fee would be \$400,000.

The Contract Award Fee will be payable to Keystone within 10 business days of the Company receiving and clearing payment from the Keystone Project Target.

Each the Company and Keystone will cooperate in good faith following the introduction of a Keystone Project Target.

For purposes of this agreement, Contract Value shall mean the gross sum payable to Company pursuant to the respective Contract.

- B. **Transaction Advisory Services Fee.** If during the term of the Engagement, a Transaction is consummated, or the Company enters into an agreement which subsequently results in a Transaction being consummated with a Keystone Investor Target, then KSG shall be paid a cash fee (the “**Success Fee**”) at the closing of the Transaction equal to a percentage of the Aggregate Consideration (as defined below) payable in connection with the Transaction as follows:

7% of the first \$5 million

5% on everything above \$5 million

For example, if the Aggregate Consideration is \$5 million, the Success Fee would be \$350,000. If the Aggregate Consideration is \$6 million, the Success Fee would be \$400,000.

For purposes of this Engagement, the term **Aggregate Consideration** means the aggregate amount of cash and the fair market value (as defined herein) of securities (whether debt or equity) paid or payable to the Company in a Transaction. Aggregate Consideration shall also include (i) the amount of any indebtedness (including capital leases) of the Company assumed, continued, defeased, refinanced or otherwise paid in connection with the Transaction and (ii) the face value of any installment or escrow payments which the Company reasonably expects to receive. In addition, Aggregate Consideration shall include the value of any contingent payments which the Company expects to receive pursuant to an earn-out or similar arrangement, with the amount of such payments being calculated based upon the Company’s financial projections at financial close.

3. **Other Services.** If Keystone Global is requested by the Company to perform services in addition to those described in Section 1, then the terms and conditions relating to such services will be outlined in a separate agreement (or an amendment to this Engagement Letter) and the fees for such services will be negotiated separately and in good faith and will be consistent with fees customarily paid to advisors in the U.S. for similar services.
4. **Expenses.** In addition to any fees payable hereunder, Keystone Global shall be reimbursed by the Company for its reasonable out-of-pocket expenses (including, but not limited to, travel expenses, such as, flights, accommodations and meals), payable upon presentation to Company, in connection with the Engagement without regard to whether a Transaction or Contract is consummated. Keystone Global shall be reimbursed within thirty (30) days upon Keystone Global presenting an invoice to the Company. Keystone Global shall obtain prior written consent of the Company prior to incurring any expense.
5. **Exclusivity.** In order to coordinate the efforts to effect a Transaction with a Keystone Investor Target or provide Consulting Services satisfactory to Company in connection with a Keystone Project Target or Contract (as applicable), during the period of the Engagement hereunder, prior to engaging in any discussions with a Keystone Project or Investor Target, Keystone Global will provide Company with a list of such Targets to ensure Company is not already in discussion with said Targets. Once Company approves Keystone Global’s pursuit of Project or Investor Targets, Company will not initiate any discussions looking toward a Transaction with any named Keystone Investor Target or Consulting Services with any named Keystone Project Target or Contract, except through Keystone Global. In the event that Company, its directors or management receive any inquiry or are otherwise aware of the interest of any third party in a Transaction involving a Keystone Project Target or in connection with a Contract involving a Keystone Project Target, they will promptly inform Keystone Global of the prospective buyer and its interest.

6. **Indemnity.** The Company and Keystone Global agree that **Schedule A** attached hereto forms an integral part of this Engagement Letter and is hereby incorporated herein by reference in its entirety.
7. **Term and Survival.** The Keystone Consulting Services shall continue in effect until one (1) year from the date of this Engagement Letter; and the KSG Transaction Advisory services shall continue in effect until six (6) months from the date of this Engagement Letter, unless terminated at any time with or without cause by either Keystone Global or the Company upon ten (10) business days written notice thereof to the other party, except that (i) Sections 2 (Fees), Section 3 (Other Services), Section 4 (Expenses), Section 6 (Indemnity); Section 7 (Term / Survival), Section 12 (Proprietary Work Product), and Section 14 (Governing Law) shall survive termination of this Engagement Letter, and (ii) if within 24 months of the end of such term a Transaction or Contract shall occur with a Keystone Investor Target or a Keystone Project Target respectively, then Keystone Global shall be paid a fee in accordance with the Section 2 above.
8. **Customer Due Diligence.** The USA PATRIOT Act, which imposes certain anti-money laundering requirements on brokerage firms and financial institutions, requires you to provide us with your tax identification number and may also require you to provide us with certain other identification documents or other information in order for us to be permitted to effect transactions for you (including the transaction(s) contemplated by this Engagement Letter). In addition, we may also be required to make certain inquiries of other organizations for information about you in order to fulfill our responsibilities under Federal regulations.
9. **Support / Collaboration.** The Company agrees to cooperate with Keystone Global, to provide and make available, or cause to be provided, all such information, data, advice, documentation and opinions (the “**Information**”) as Keystone Global may reasonably request in relation to the Transaction, Company or any of its affiliates in order to perform services hereunder.
10. **Confidentiality.** The parties have executed that certain Confidentiality Agreement dated **November 3, 2022**, (the “**NDA**”) which governs the treatment of confidential information disclosed during the term of this Engagement. The NDA is incorporated into this Engagement Letter by reference.
11. **Announcements / Marketing.** Following financial close of the Transaction and/or Contracts or earlier if agreed with the Company in writing, Keystone Global may publish announcements relating to its services. Keystone Global may also include its role and services provided in the Transaction and/or Contracts in its marketing materials and website.
12. **Proprietary Work Product.** The Company acknowledges that all work product produced by Keystone Global under this Engagement Letter remains the sole property of Keystone Global until such time as the Fees outlined in Sections 2 and 4 (Fees) have been paid, or in the event of termination of this Engagement Letter, the parties have

agreed in good faith to an appropriate settlement for all deliverables including documents authored, prepared and delivered by Keystone Global in the course of performing the services under this Engagement Letter (the “**Work Product**”). In no event may Company re-sell, sub-license, lease or otherwise transfer or share the Work Product (or any portion thereof) to any third party in contravention with this Engagement Letter.

13. **Entire Agreement, Amendments.** This Engagement Letter contains the entire agreement between the Company and Keystone Global concerning the subject matter hereof, supersedes all prior agreements with respect thereto, and no modifications of this Engagement Letter or waiver of the terms and conditions hereof will be binding upon either party, unless approved in writing by both parties. This letter has been duly authorized and executed by each of the parties hereto and constitutes the legal, binding obligation of each such party. Engagement Letter may be executed in several counterparts, each of which when executed and delivered shall be an original, but all of which together shall constitute one and the same instrument. Facsimile or emailed signatures shall be deemed original signatures.

14. **Governing Law.** This letter agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to principles of conflicts of laws. The Company irrevocably and unconditionally submits to the exclusive jurisdiction of any State or Federal court sitting in New York City over any action, suit or proceeding arising out of or relating to this letter agreement. The Company irrevocably and unconditionally waives any objection to the laying of venue of any such action, suit or proceeding brought in any such court and any claim that any such action, suit or proceeding has been brought in an inconvenient forum. EACH OF Keystone Global AND THE COMPANY (ON ITS OWN BEHALF AND, TO THE EXTENT PERMITTED BY LAW, ON BEHALF OF ITS SHAREHOLDERS) WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LETTER AGREEMENT.
15. **Independent Contractor Status.** The Company understands that Keystone Global is acting solely as a financial and strategic advisor, is acting as an independent contractor, and not in a fiduciary capacity, and is not undertaking to provide any legal, accounting, or tax advice in connection with its Engagement under this Engagement Letter.
16. **Broker-Dealer Representation.** All securities and other regulated services will be offered through KSG. KSG is duly registered, licensed and qualified as a broker-dealer under the 1934 Act and the rules and regulations of the Commission thereunder and the securities laws of each state where the conduct of its business requires such registration and is duly registered and is in good standing with FINRA.

(Signature page follows)

Please confirm that the foregoing is in accordance with your understandings and agreements with Keystone Global in respect of the Engagement by signing below and returning a copy of this Engagement Letter.

Very truly yours,

KSG ADVISORS, LLC

DocuSigned by:
By: Mara Johnston
Name: Mara Johnston
Title: Managing Principal

KEYSTONE GLOBAL STRATEGIES, LLC

By: _____
Name: Mit Jha
Title: Managing Principal

CONFIRMED AND AGREED:

DARKPULSE, INC.

DocuSigned by:
By: Dennis O'Leary
Name: Dennis O'Leary
Title: Chief Executive Officer

6

SCHEDULE A

This Schedule A is incorporated by reference into KSG Advisors, LLC's ("KSG") and Keystone Global Strategies, LLC ("Keystone," and together with KSG, "Keystone Global") engagement letter dated February 24, 2023 (the "Engagement Letter") between Keystone Global and DarkPulse, Inc. (the "Company") in connection with the matter or matters described in such Engagement Letter.

The Company agrees to indemnify and hold harmless Keystone Global and its affiliates and their respective directors, managers, officers, employees, agents and controlling persons (each, with Keystone Global, an "Indemnified Person"), except for such Indemnified Person's gross negligence or willful misconduct, from and against all losses, claims, damages, liabilities or expenses (or actions or proceedings, including security holder actions or proceedings, in respect thereof), joint and several, related to or arising out of such engagement or the rendering of additional services by Keystone Global as requested by the Company that are related to the services rendered under the Engagement Letter, or Keystone Global's role in connection therewith (collectively, a "Claim" and/or "Loss"), and will reimburse each Indemnified Person promptly for all expenses (including counsel fees and expenses) as they are incurred by an Indemnified Person in connection with the investigation of, preparation for, or defense of any pending or threatened Claim, or any such action or proceeding arising therefrom, whether or not such Indemnified Person is a formal party to any such lawsuit or other proceeding ("Proceeding") and whether or not such Proceeding is initiated by or brought on the Company's behalf.

The Company also agrees that no Indemnified Person shall have any liability (whether direct or indirect, in contract or tort or otherwise) to the Company or any person asserting claims on the Company's behalf or in the Company's right for or in connection with such engagement, except to the extent that such Claim is finally judicially determined to have resulted primarily from such Indemnified Person's gross negligence or willful misconduct. In no event, regardless of the legal theory advanced, shall the Company or any Indemnified Person be liable for any consequential, indirect or incidental or special damages of any nature.

If the indemnity or reimbursement referred to above is, for any reason whatsoever, unenforceable, unavailable or otherwise insufficient to hold each Indemnified Person harmless, the Company agrees to contribute to amounts paid or payable by an Indemnified Person in respect of such Indemnified Person's Losses so that each Indemnified Person ultimately bears only a portion of such Losses as is appropriate (i) to reflect the relative benefits received by each such Indemnified Person, respectively, on the one hand and the Company (and the Company security holders) on the other hand, or (ii) if the allocation on that basis is not permitted by applicable law, to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of each such Indemnified Person, respectively, and the Company as well as any other relevant equitable considerations; provided, however, that in no event shall the aggregate contribution of all Indemnified Persons to all Losses exceed the amount of the fee actually received by Keystone Global pursuant to the Engagement Letter.

The Company agrees that without Keystone Global's prior written consent the Company will not enter into any settlement or compromise of, or consent to, any judgment in a Proceeding arising out of the transactions contemplated by the Engagement Letter and in which Keystone Global or any other Indemnified Person could reasonably be likely to be an actual or potential party to such Proceeding, unless such settlement, compromise or judgment (i) includes an explicit and unconditional release from the party bringing such Proceeding of all Indemnified Persons from all liability arising therefrom and (ii) the amount involved in any such settlement, compromise, consent or termination is paid in full directly by the Company or on behalf of the Company, and such compromise settlement, consent or termination does not (x) acknowledge any liability of or wrongdoing by an Indemnified Person, (y) adversely affect the business of an Indemnified Person, or (z) limit the future conduct of an Indemnified Person whether by injunction, consent decree or other decree or otherwise.

7

Promptly after an Indemnified Person's receipt of notice of the commencement of any Proceeding, an Indemnified Person shall notify the Company in writing of the commencement thereof, but omission so to notify the Company will not relieve the Company from any liability which the Company may have to such Indemnified Person, except the Company's obligations to indemnify to the extent that the Company suffers actual prejudice as a result of such failure, but shall not relieve the Company from the Company's obligation to provide reimbursement of expenses (including counsel fees and expenses). The Company further agrees that the Indemnified Persons are entitled to retain separate counsel of their choice that is subject to the Company's prior written consent and approval in connection with any of the matters in respect of which indemnification, reimbursement or contribution may be sought under this Engagement Letter, and the reasonable fees and expenses of such counsel shall be included in the indemnification hereunder.

The Company will pay to Keystone Global and each Indemnified Person, in addition to the other fees and expenses payable to it, the charges as incurred and as reasonably determined by Keystone Global for any time of any officers, directors or employees of Keystone Global devoted to appearing and preparing to appear as witnesses, assisting in preparation for hearings, trials or pretrial matters or otherwise with respect to hearings, trials, pretrial matters and other proceedings in any way relating to, or referred to in, or arising out of the Engagement Letter or Keystone Global's role in connection therewith. This provision shall not apply to any hearings, trials or other matters relating to negligence and/or misconduct of Keystone Global or the indemnified person or collection of fees and/or expenses by Keystone Global from the Company. The Company will also pay the fees and expenses of the Indemnified Person's counsel in connection with the matters referred to in this paragraph.

The foregoing shall be in addition to any rights that Keystone Global may have at common law or otherwise. The Engagement Letter including this Schedule A shall be binding upon and inure to the benefit of Company's successors, assigns, heirs, and personal representatives, and upon Keystone Global and any other Indemnified Person and their respective successors, assigns, heirs and personal representatives.

It is understood that, in connection with Keystone Global's Engagement, Keystone Global may also be requested to act for the Company in one or more additional capacities, and that the terms of any such additional engagement may be embodied in one or more separate written or oral agreements. The obligations set forth in this Schedule A shall apply to Keystone Global's Engagement by the Company and any modification shall remain in full force and effect following their completion or termination.

The provisions of this Schedule A may not be amended or modified except in writing and shall be governed by and construed in accordance with the laws of the State of New York. The Company hereby consents to personal jurisdiction and service and venue in any court in which any claim which is subject to the provisions of this Schedule A is brought against an Indemnified Person. KEYSTONE GLOBAL HEREBY AGREES, AND THE COMPANY HEREBY AGREES FOR ITSELF AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ON BEHALF OF THE COMPANY'S SECURITYHOLDERS, TO WAIVE ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY CLAIM, COUNTERCLAIM OR ACTION ARISING OUT OF THIS ENGAGEMENT LETTER, INCLUDING THE PROVISIONS OF THIS SCHEDULE A, OR KEYSTONE GLOBAL'S PERFORMANCE THEREUNDER. In the event of a dispute between Company and Keystone Global, the parties agree to enter into mandatory mediation or, if necessary, arbitration to resolve such dispute.

CERTIFICATIONS

I, Dennis O'Leary, certify that:

1. I have reviewed this Form 10-Q quarterly report of DarkPulse, Inc. for the quarter ended March 31, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 18, 2023

/s/ Dennis O'Leary

Dennis O'Leary, Chief Executive Officer
(Principal Executive & Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of DarkPulse, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission (the “Report”), the undersigned principal executive and principal financial officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 18, 2023

/s/ Dennis O’Leary

Dennis O’Leary, Chief Executive Officer
(Principal Executive & Financial Officer)